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Nato hits military convoy as Serbs claim 70 refugees dead

By Alexander Nicoll in London and Neil Buckley and Peter Norman in Brussels

Nato said last night its aircraft had attacked military vehicles on a road in western Kosovo, but could not confirm Serbian claims that 70 ethnic Albanian refugees had been killed in the assault.

If confirmed as the result of allied action, this would be the worst known incident in terms of casualties in Nato's three-week air offensive against Slobodan Milosevic, the Yugoslav president.

It follows the deaths of at least 10 people on Monday when a passenger train was hit by two missiles fired by a Nato aircraft at a railway bridge in Serbia.

Last night Nato's military headquarters in Mons, Belgium said allied aircraft had attacked military vehicles just east of the village of Djakovica, close to the Albanian border, at 3.30pm local time yesterday.

"The pilots state they attacked only military vehicles," Nato said. "We cannot confirm press reports alleging that these attacks may have caused civilian casualties."

According to Serbian official media, a convoy of about 100 vehicles including tractors and cars, carrying several thousand ethnic Albanian civilians, had been attacked on the road from Prizren to Djakovica. The road is close to the border with Albania and runs parallel with it.

In the village of Meja, 64 people were reported killed, and a further six in a separate attack in the village of Zrze. A total of 33 people were said to be wounded including three Serb policemen escorting the convoy. Nato had feared the Serbs would use ethnic Albanian refugees in Kosovo as "human shields" by forcing them to travel with military vehicles. However, there was no confirmation last night that refugees were being used in this way.

A Nato spokesman said the incident was being investigated. "What I have been told by the operational commanders is that military vehicles were a target on that road this afternoon."

Pictures taken by a Reuters news agency photographer, who was escorted to the scene by Serbian officials, showed bodies littering a road, tractors and a horse and cart.

General Wesley Clark, Nato's supreme commander, yesterday called the railway attack "an uncanny accident" and said the train appeared after a missile had been fired, too late for the pilot to divert it. A second missile, intended to hit the other end of the bridge, also hit the train.

The alliance insists it is trying to hit only military targets in Yugoslavia with the aim of removing the capacity of Serbian forces in Kosovo from oppressing the 1.5m ethnic Albanians in the province, of whom as many as 1.3m have been displaced from their homes.

The attack occurred as European heads of government, meeting in Brussels with Kofi Annan, the United Nations secretary general, discussed a Kosovo peace plan proposed by Joschka Fischer, Germany's foreign minister.

Kosovo crisis, Page 2
Soul-searching in Moscow, Page 14

Energy bids confirm renewed interest in S America

By John Barham in São Paulo, Mark Mulligan in Santiago and Robert Corzine in London

European groups yesterday bid R1.65bn ($1bn), more than double the minimum price for Comgas, the Brazilian gas company being privatised by the state government of São Paulo.

The sale to a consortium made up of BG, the UK gas pipeline operator, and RoyalDutch/Shell, confirms the recovery in investor sentiment towards the region following the Brazilian currency crisis in January and the growing interest of foreign investors in Latin American utilities.

It came a day after an offer of $1.5bn by Endesa, the Spanish utilities company, for a 29.7 per cent stake in Endesa of Chile, the continent's second largest electricity generator. The bid, which was higher than expected, is through Enersis, the electricity distributor which Endesa of Spain controls and which already holds 25.3 per cent of the generator. It tops a $2.1bn bid by Duke Energy International for 51 per cent of the Chilean group.

Both announcements further strengthened the rally in Latin American stock prices. In Sao Paulo early trading, the Bovespa index rose by nearly 2 per cent, while the Chilean market gained more than 0.5 per cent. Prices on both markets are now more than 20 per cent higher than at the beginning of the year, while Mexico has gained more than 35 per cent.

BG and RoyalDutch/Shell beat off competition from three other international consortia, paying a premium of 119 per cent over the minimum price. Enron of the US, which made the second highest bid, offered a premium of 70 per cent.

The battle for Endesa follows the $330m acquisition on Tuesday of the energy assets of Chilquinta, a Chilean holding company, by a US consortium of Sempra Energy of San Diego and New Jersey-based Public Service Enterprise Group.

Grupo Endesa and Duke Energy said Brazil's energy privatisation this year is one of the main reasons for their push into Latin America through Chile.

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WORLD NEWS

Deutsche Bank eases opposition from Holocaust group

Deutsche Bank appears to have persuaded US Holocaust campaigners to drop their opposition to its acquisition of Bankers Trust as it enters a crucial conference on the issue today in New York, but it still faces class action lawsuits and threats of economic sanctions. **Europe, Page 3**

India faces confidence vote
India's president told the government of Atal Behari Vajpayee to seek a confidence vote in parliament after a key ally pulled out of the ruling coalition. **Page 16; Asia-Pacific, Page 6**

Pakistan carries out N-test
Pakistan carried out a test of a long-range version of its Ghauri-II missile in response to India's test on Sunday of its own extended range and nuclear-capable Agni II missile. **Asia-Pacific, Page 6**

Churches warn over Israeli dispute
Israel's three Christian Patriarchs have threatened to close all their churches in Israel indefinitely if the government fails to resolve a religious dispute in Nazareth over land. **International, Page 5**

Search for genetic 'road map'
The DNA of 40 people from around the world is to be "mapped" to determine how infinitesimal modifications in the genetic code underlie the basic differences between individuals. **International, Page 5**

Modified corn spurned
Archer Daniels Midland, one of the biggest US agribusinesses and a leading corn processor, said it would not buy or trade any genetically modified (GM) corn which had not been approved by the European Union. **International Trade, Page 10**

Guns for the millennium
Gun dealers in America are reporting a sharp increase in sales from "concerned citizens" worried that any problems caused by millennium computer malfunction could lead to a breakdown in law and order. **America, Page 4**

Chávez pledge on constitution
Hugo Chávez, Venezuela's president, has pledged to abide by constitutional rule in his confrontation with Congress and the Supreme Court, but insisted that a popularly elected assembly that is to convene in July should dissolve both. **Americas, Page 4**

Indian Internet use soars
India's growing base of internet subscribers could surge six-fold by the end of next year and levels of net-based commercial transactions more than double, according to research. More than 250,000 Indians are already connected to the net. **Asia-Pacific, Page 6**

Companies evade minimum wage
Many small companies in Britain are finding ways of evading the minimum wage – £3.60 ($5.79) an hour for adults – introduced this month. **Britain, Page 11**

UK jobless predicted to rise
The UK economy will avoid recession this year but at significant cost to output and employment, according to a report today. **Britain, Page 12**

BUSINESS NEWS

Mannesmann plans expansion into new media services

Mannesmann, German industrial group and one of Europe's strongest telecoms operators, is to expand into new media services and internet commerce. **Companies and markets, Page 17**

DaimlerChrysler shares fell almost 2 per cent after it became known that the US-German carmaker might have to pay stiff fines for breaching European Union anti-trust laws. **European news, Page 3; Lex, Page 16**

Investor, main holding company for Sweden's Wallenberg business empire, announced a wide-ranging restructuring. **International companies, Page 18**

Bell Atlantic took another step towards dissolving its partnership with AirTouch as it revealed it would abandon a wireless communications joint venture between the two companies. **Companies and markets, Page 17; Lex, Page 16**

Paribas and **Société Générale**, French banks whose merger plans were hit be a double-barrelled bid from Banque Nationale de Paris, are preparing for a fight that could last six months. **International companies, Page 18**

Cadbury Schweppes and Coca-Cola released details of an exchange of soft drink brands that will give the US group Dr Pepper, Schweppes and Canada Dry in Australia. **Companies and markets, Page 17**

São Paulo sold its controlling stake in Comgás, the state gas company, to a consortium formed by BG, the UK gas pipeline operator, and Royal Dutch/Shell for R$1.65bn ($1bn). **Companies and markets, Page 17**

IIT, Japanese telecoms group which is bidding for international carrier IDC, suggested that it was not prepared to be drawn into a protracted battle with Cable and Wireless of the UK. **Asia-Pacific companies, Page 19**

Bank of America and **Bank One**, the two largest US retail banks, launched rival services to offer customers bill delivery and payment online. **US companies, Page 20**

Goldman Sachs investment bank bought 2 per cent of Bank Hapoalim, Israel's biggest banking group, from the Israeli government in a $59.1m block trade, reducing the state's stake to 22 per cent. **International companies, Page 18**

Japan's corporate bankruptcy debt climbed to a high of Y3,110bn ($26bn) in March. **Asia-Pacific news, Page 6**

Banco Santander and **Banco Central Hispanoamericano** are set to consummate Spain's biggest merger with the launch of the new BSCH group's shares on the Madrid stock market. **International companies, Page 18**

World Equity Markets
The latest trends and data from more than 50 national markets at a glance

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Six candidates quit Algerian election citing vote-rigging

By Roula Khalaf, Middle East Correspondent, in London

Six of the seven Algerian presidential candidates pulled out on the eve of today's election, alleging fraud by the authorities in favour of the military regime's favourite, and shattering the poll's credibility.

The six allege vote-rigging was intended to ensure victory for Abdelaziz Bouteflika, the former foreign minister.

The candidates, including Mouloud Hamrouche, former prime minister, and Ahmed Taleb Ibrahimi, an ex-government minister, said they would not recognise the results of the poll having seen "the persistence of the regime to deny citizens the right to choose their future and pick their president".

"The people gave us their confidence and we were not willing to play with it ... we were left with two options, either a rigged election or the respect of the people," said Youcef Khatib, one of the candidates and a former adviser to Liamine Zeroual, the outgoing president. "We chose the people."

Mr Zeroual was due to address the nation last night. He had refused to see the candidates earlier in the day, insisting that he had given guarantees about the fairness of the poll and that allegations of fraud could be dealt with through the legal process.

Algeria's electoral law prevents candidates from withdrawing but the six contenders said their move was a political protest.

The withdrawal turns an election, which was meant to mark the beginning of a process of national reconciliation, into the source of a political crisis.

The participation of credible opposition figures and promises of a free poll had raised hopes the election might usher in a period of political openness and help to end the violence that has gripped the North African country since 1992, when the army cancelled elections the Islamic Salvation Front (Fis) was about to win. Mr Bouteflika has had an advantage over other candidates, after securing the support of the pro-government leadership of four parties. But the other candidates believed he could be beaten as long as electors were allowed to vote freely.

However, following a campaign in which several contenders accused the administration of bias towards Mr Bouteflika and alleged irregularities in voting this week in army barracks and mobile polling stations, the candidates said they became convinced of an intention by the regime to massively rig the poll.

A demonstrator holds up a poster of Anwar Ibrahim at a rally in Kuala Lumpur to protest at the ousted Malaysian deputy prime minister's six-year prison sentence for abusing his power to conceal alleged sexual misdeeds. Riot squads armed with canes dispersed the protesters. Page 6 Picture: AP

Monti hopeful over deal on savings tax

By Emma Tucker in Brussels

Mario Monti, the European commissioner responsible for financial services and taxation, said yesterday he was confident that a compromise to protect institutional holders of international bonds from paying an EU-wide withholding tax could be feasible.

But he said a threshold of €40,000 (£26,680) – the cut-off to distinguish between retail and wholesale investors in a separate EU directive – was too low.

European Commission officials have been examining a compromise plan built around a threshold, in an attempt to persuade the UK to lift its threat of a veto on introduction of the tax.

According to the compromise, issues whose minimum holding was more than the threshold would be exempt from the tax.

Emotions in the City of London are running high over the potential impact of the proposed tax on the market for international bonds. City institutions have doubts about the workability of a threshold, and continue to object to the directive. A higher threshold would make the proposal even less attractive, because it would mean more bond issues would be subject to the measure.

Mr Monti said a lot of work had been done to minimise the compliance costs of the directive and added that although it would be impossible to reduce the risk of relocation of the market to zero, the EU was "definitely working in that direction".

He stressed that Europe had a vested interest in a strong City of London and would not push measures that harmed its interests.

Mr Monti said the City was a "huge asset" to the whole of the EU "as well as an efficient allocator of financial resources for the whole of the EU".

City institutions claim the tax would drive the market out of the EU to countries such as Switzerland.

The proposal for a 20 per cent tax on income from the savings and investments of non-residents was drafted by Mr Monti last year as part of a package aimed at ironing out unfair tax competition within the single market.

WORLD MARKETS

STOCK MARKET INDICES			**GOLD**		
New York: Lunchtime			*New York: Comex*		
Dow Jones Ind Av	10517.11	(+122.10)		$281.6	(284.1)
NASDAQ Composite	2591.57	(+8.07)	*London:*		
Europe and Far East				$283.05	(283.85)
CAC40	4349.26	(-18.15)	**DOLLAR**		
DAX	5182.16	(-17.02)	*New York Lunchtime*		
FTSE 100	6493.6	(-19.5)	£	1.61175	
FTSE Eurotop 300	1299.96	(-6.19)	€	0.9275	
Nikkei	16,764.66	(+49.52)	SFr	1.4878	
US Lunchtime RATES			Y	118.92	
Federal Funds	4.75%		*London:*		
3-mth Treas Bills: Yld	4.29%		£	1.6177	(1.6167)
Long Bond	$96\frac{11}{32}$		€	0.9250	(0.9257)
Yield	5.50%		SFr	1.4841	(1.4861)
OTHER RATES			Y	118.730	(120.185)
UK: 3-mo Interbank	$5\frac{1}{4}$%	($5\frac{3}{32}$%)	Tokyo Close		Y 119.80
UK: 10 yr Gilt	111.190	(111.21)	**EURO (London)**		
Euro Euribor	2.851	(2.851)	$	1.0811	(1.0791)
Germany: 10 yr Bund	99.53	(99.45)	£	0.6683	(0.6674)
Japan: 10 yr JGB	102.425	(102.766)	Y	128.359	(129.686)
NORTH SEA OIL (Argus)			SFr	1.6045	(1.6036)
Brent Dated	$14.685	(15.01)			

Euro-zone target price £2.15. Prices in local currency as shown

Bahrain	Dk1.300	Iceland	IKr265	Oman	OR1.75
Belgium	BFr90 (£2.23)	Italy	L3900 (£2.01)	Poland	Zl 10.00
CIS	US$4.00	Jordan	JD1.75	Portugal	Esc320 (£1.60)
Croatia	Kn19.00	Kuwait	KWD0.750	Qatar	QR13.00
Denmark	DKr16.00	Latvia	Ls1.65	South Africa	R15
Estonia	EKr34.00	Lithuania	Lt21.00	Spain	Pta325 (£1.95)
Finland	FmK13.00 (£2.19)	Lebanon	LBP3.500	Sweden	SKr20.00
France	FFr14.00 (£2.13)	Luxembourg	LFr90 (£2.23)	Switzerland	SFr3.50
Gibraltar	£0.85	Morocco	Dh18.00	Syria	S£80.00
Greece	Dr500	Netherlands	Fl 4.80 (£2.18)	Tunisia	Din2,000
Hungary	Ft360	Norway	NKr19.00	UAE	Dh13.00

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Dreams of a democracy die alongside journalist

By Guy Dinmore in Belgrade

Air raid sirens sounded the all clear, the sun emerged and there was silence, apart from the singing of birds and the rhythmic thud of earth shovelled on to wood.

Some 2,000 people – opposition leaders, actors, journalists, friends and strangers – gathered quietly yesterday in Belgrade's main cemetery to bury Slavko Curuvija, Serbia's most outspoken newspaperman, and with him their aspirations for democracy.

Two young men in black, firing pistols with silencers, gunned down Mr Curuvija outside his Belgrade apartment on Orthodox Easter Sunday. Police are investigating the death of the most vocal critic of the regime led by Slobodan Milosevic, Yugoslav president, but everyone at his graveside believed they knew who had done it, they were just too terrified to say so.

Ljiljana Smajlovic, one of Mr Curuvija's editors, delivered the eulogy. "The day when Yugoslavia was attacked by Nato, Slavko Curuvija called a last meeting of his staff and I will remember his words: 'I won't publish a newspaper for censors, and Nato's aggression is illegal, illegitimate and immoral'."

Opposition politicians and independent journalists – against Nato's air campaign but refusing to support Mr Milosevic – assembled in public for the first time since the bombing began over three weeks ago. Looking among the crowd for the now-feared secret police, they exchanged views on the hopelessness of their situation.

Among the mourners were Zoran Djindjic, Nebojsa Covic and Vuk Obradovic – three leaders of the opposition Alliance for Change. No one from the government was to be seen but Danica Draskovic, wife of the Yugoslav deputy prime minister Vuk Draskovic, was there.

Ms Smajlovic summed up the view that Nato's campaign had destroyed not just military targets and civilian infrastructure but also Serbia's pro-democracy movement. "Slavko was not just killed cowardly in the back but bombed cowardly from the skies. He was a great journalist who wanted a European newspaper for Serbia," she said.

"This is our funeral," commented another journalist.

Drenka Bogojevic, a middle-aged worker of the Zastava car plant bombed by Nato, called Mr Curuvija her greatest hero. "But this bombing is genocide and is helping Milosevic," she added. "It's a tragedy and a catastrophe for the people, and Milosevic is safe in his bunker. I worked in Zastava for 17 years and had a heart attack when I saw it destroyed."

Who might be next after the 50-year-old Curuvija was the unspoken question. But there was also the view that Mr Curuvija was a "special case".

The editor and owner of Dnevni Telegraf, a daily, and the fortnightly European, had also once worked for the secret police and enjoyed the confidence, and possibly largesse, of the Milosevic family. For this he was viewed with some suspicion by Serbia's fragmented and quarrelsome opposition.

But last October the European launched one of the most virulent attacks on the regime published in Serbia and carried a picture of Romania's security forces overthrowing President Nicolae Ceausescu in 1989. The magazine and daily were heavily fined for breaking Serbia's tough media law, and in a move that may or may not have been related, Mr Milosevic sacked the head of his secret police.

But Mr Curuvija, who stayed in Belgrade, moved his operations outside Serbia and continued to publish. At the time of his death he was appealing against a five-month jail sentence imposed for slandering a top official in the party led by the president's wife, Mira Markovic.

The last figure to leave his flower-covered grave yesterday was Jelena, his 20-year-old daughter. She said goodbye to friends concerned for her future. "Take care of yourselves," she said. "Take great care."

A funeral procession leads the coffin of journalist Slavko Curuvija in Belgrade yesterday — Reuters

Nato wants Russia 'on board'

By Neil Buckley in Brussels

Nato is hopeful that it can resolve differences with Russia and see its conditions for ending the bombing of Yugoslavia enshrined in a UN resolution, according to Javier Solana, the defence grouping's secretary-general.

In an interview with the FT, Mr Solana said that bringing Russia "back on board" was a priority of the alliance. A meeting of the Group of Eight, the world's largest industrialised democracies including Russia, could take place within a few days, he suggested, possibly followed by a meeting of the UN Security Council.

His comments came shortly before Germany unveiled a peace plan calling for a UN-backed international peacekeeping force in Kosovo once Yugoslav forces withdrew, and before a private meeting between Mr Solana and Kofi Annan, the UN secretary-general.

They reflect a growing desire within the alliance to bring its actions back within a UN framework.

Mr Solana suggested the differences with Russia over Nato's five demands boiled down to one: the nature of any international presence in Kosovo.

The alliance, he hinted, could accept something other than a Nato-led force. He envisaged something similar to the SFOR stabilisation force in Bosnia – an "efficient coalition", not just of Nato but more than 30 countries.

The Nato countries would be very important, as nations which could deploy large forces on the ground, he said. "They will want to do it through the mechanism we have. But does that mean that will be the only mechanism that will be there? No."

But, Mr Solana stressed, Nato could not accept Russia's demand that the international force be non-military. The allies had already experienced the inability of the OSCE observer mission in Kosovo to prevent violence against ethnic Albanians.

"We cannot make that mistake [again]," he said. "It has to be a robust military presence, otherwise the refugees will not return, because their security will not be guaranteed."

The secretary-general insisted, however, that Nato's military action to date was "perfectly legitimate", despite lacking a UN mandate, because it resulted from a decision by 19 democratic countries not to accept "brutality in our own territory". It was in the spirit of three UN resolutions, while Mr Annan last week personally endorsed Nato's five demands.

The alliance also had a moral duty to intervene to prevent a campaign of ethnic cleansing which, he insisted, had been carefully prepared long before Nato air strikes began.

"In this conflict, nothing is at stake but moral values," he said. "There is no oil, no petrol, no primary raw materials, no strategic positions.

"We are building Europe... [but] if we let these things go by in our territory, it will be impossible to keep on constructing with dignity what we are trying to construct."

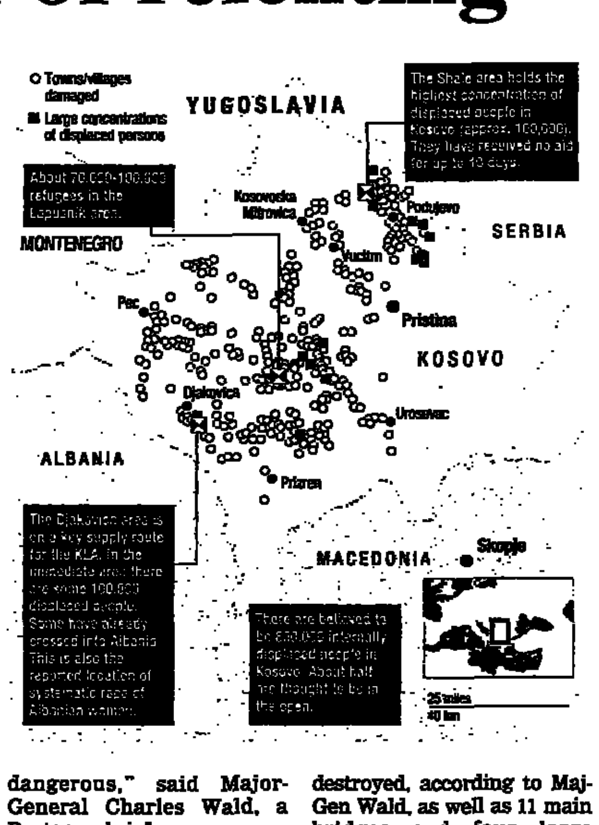
NEW ATTACKS 800,000 DISPLACED PEOPLE STILL IN KOSOVO

Serb forces 'show no sign of relenting'

By Alexander Nicoll, Defence Correspondent

Serbian forces responsible for driving as many as 1.3m Kosovars from their homes show no sign of relenting but are being forced into a more defensive posture by Nato's air attacks, according to allied military chiefs.

The accompanying map, supplied by the UK Ministry of Defence, shows that the Yugoslav military have been active throughout Kosovo, burning towns and villages in their "ethnic cleansing" offensive.



Clare Short, UK international development secretary, estimates there are 800,000 displaced people within Kosovo itself, of whom 400,000 may be without shelter, in addition to more than 500,000 refugees in other countries.

According to the Pentagon, 50 per cent of Nato's targets over the 22-day campaign have been units of the Yugoslav army and special police in Kosovo itself.

But aerial photographic evidence continues to show villages being burned. General Wesley Clark, Nato's supreme commander, acknowledges that "you cannot stop paramilitary murder on the ground with aeroplanes".

Nevertheless, military commanders say that damage to supply routes, command, control and communications installations, and stores of fuel, ammunition and military vehicles will steadily erode the ability of Serb forces to operate.

With the safety of its pilots in mind, Nato has devoted many attacks to an air defence system which it says is the most formidable in the region. More than 50 surface-to-air missile sites – launchers, radar and communications facilities – have been attacked.

However, missiles are still being fired at Nato aircraft from mobile and hand-held launchers.

"When our pilots go in, they're going to treat it just like it was on day one, very dangerous," said Major-General Charles Wald, a Pentagon briefer.

More than half of Yugoslavia's 15 MiG-29 fighters have been destroyed, along with more than 40 hangars and aircraft support facilities.

Many airfields have been damaged. Nato has also attacked key headquarters sites, including two interior ministry buildings in the centre of Belgrade.

The bulk of its raids now appear to be directed at depleting Serb forces in Kosovo. Nato believes it has rendered Serbia's two oil refineries inoperable, and that the destruction of 11 fuel storage areas has eliminated most of the strategic reserve.

According to Gen Clark, 70 per cent of stores of petroleum, oil and lubricants have been destroyed. "He [President Milosevic] is scrambling to bring more fuel in. Units have been told in Kosovo to cease operations, to hold back, conserve your fuel, get out of the way and wait."

Five industrial targets producing "military-type equipment" have been destroyed, according to Maj-Gen Wald, as well as 11 main bridges and four large ammunition storage areas.

Roads, fuel trucks, military vehicle compounds, barracks, command and control facilities and communications sites are all being regularly attacked as the effort to isolate Serb forces in Kosovo intensifies.

Gen Clark said that the Serb military was unable "to respond crisply and sharply", as it had previously. But it was harder to target the tanks, armoured vehicles and other Serb force facilities on the ground.

For pilots, attacking individual tanks "is not the preferred target set, it is high risk, it is difficult, and it is slow".

But Serb forces were moving into defensive positions in some areas. "He [Mr Milosevic] is scrambling to remove critical assets from known locations, to hide, conceal, to repair."

According to Maj-Gen Wald: "Eventually, his fielded force is going to have a hard time manoeuvring, doing anything much other than hunkering down".

Peace plan follows broad talks

By Haig Simonian in Bonn and Michael Smith in Strasbourg

The German government yesterday said its Kosovo peace plan, drawn up by Joschka Fischer, foreign minister, followed meetings over the past fortnight between German officials and Nato partners, Balkan countries and Russia.

The plan envisages a 24-hour halt to Nato air strikes once the Yugoslav government gives a clear signal it is withdrawing its military and paramilitary forces from Kosovo. The ceasefire would be prolonged as required to allow for the full withdrawal of Yugoslav troops. Air strikes would be formally suspended were Belgrade's forces to pull out within an agreed period.

Simultaneously, the Kosovo Liberation Army would agree to a ceasefire and would maintain positions until the arrival of an international peacekeeping force in Kosovo. At the point the KLA would decommission its weapons and disband military operations.

The arrival of the full international peacekeeping force would be preceded by the deployment of a smaller, preliminary military force in Kosovo by countries contributing to the peacekeeping operations.

International observers would return to Kosovo, and a transitional authority would be established by the UN to govern the area "until a final political solution". Refugees would be allowed to return once Yugoslav forces started pulling out of Kosovo.

The plan deliberately leaves vague under what international auspices the peacekeepers would operate.

Officials in Bonn said the force could be organised by the Organisation for Security and Co-operation in Europe to allow Russian and Ukrainian participation. However, a German foreign ministry spokesman made clear the peacekeepers would almost certainly come from Nato countries.

Meanwhile, Gerhard Schröder, German chancellor, told the European Parliament yesterday that the Yugoslav crisis should serve as a lesson to the EU of the need to enlarge to the east.

Some eastern European countries had tried to find security in defence by joining Nato, he said, but they also needed economic security.

"We have to say that we have a great deal of interest in [EU] enlargement. The lesson from Yugoslavia is that peace can only exist if social and economic developments take place throughout Europe. We must not let up on efforts to continue enlargement."

UK's united front hides deep misgivings

PM faces critics from within his own party and from the self-proclaimed 'patriotic' opposition, writes **Robert Peston**

It is turning into the conflict which breaks all the rules. Nato's air offensive against Serbia has split the UK's main political parties in unprecedented ways.

Behind a broadly united front formed by the leaders of the parties, many ordinary members of the British parliament are hostile to the bombing campaign. This breaks a longstanding tradition that the legislature should rally behind a government when the lives of British servicemen are at risk.

Meanwhile Tony Blair, the prime minister and leader of the Labour party, is behaving with all the crusading zeal of a Conservative premier in time of war, although lacking the poetic rhetoric of a Winston Churchill. He believes that his determination to fight is historically significant, saying that he represents a new generation of centre-left leaders born long after the second world war.

Even so, it is surprising that the strongest criticism of him has come from Conservative members, while there have been more predictable attacks from the Labour party's left wing.

This is galling to the government, since its Conservative predecessors faced only fringe parliamentary attacks in the 1982 conflict with Argentina over the Falkland Islands and again during the 1990 Gulf war. But parliamentary voices raised against the Kosovo adventure have been many and strident.

The most interesting question is why the Conservatives, the self-proclaimed patriotic party, should have redefined themselves as peaceniks. "I would say that about 100 out of our 162 MPs are more or less opposed to the action," said a former Conservative minister.

It should be pointed out that the official position of the leadership of the party is to support the prime minister, albeit in a muted way. "We can't be seen to be knocking Blair when our boys are daily risking death," said a close colleague of William Hague, Conservative leader. "But our private views are that the government acted in haste and will regret it."

Ordinary Conservative MPs have shown no such reserve. Among the most vociferous critics have been Alan Clark, a military historian and former Conservative defence minister, and Lord Carrington, foreign secretary during the Falklands conflict. Mr Clark accused Mr Blair of associating the UK "with a sustained bombardment of a brave and Christian people who have never injured or even threatened a British citizen".

This sums up the thinking of a significant caucus of Conservatives, to the effect that the UK military should be used only to defend British interests. It is a view whose pedigree can be traced back more than a 100 years to Benjamin Disraeli, founder of the modern Conservative party. They believe that however appalling Mr Milosevic's offensive against Albanian Kosovars may be, Nato is encroaching into a civil war or the affairs of another sovereign nation.

However, this is by no means the only Tory qualm. Many of them have complained that aircraft and missiles will never succeed on their own and that preparations must be made for a land war. They also periodically show a thinly disguised streak of anti-Americanism.

And in one of those quirks of British politics, similar prejudices colour many of the diatribes against Mr Blair from the left of his own party. The leading Labour critic has been Tony Benn, the veteran left-winger who was a cabinet member in the 1970s. He has accused Nato of "murdering" Serbs with no hope of bringing long-term peace and stability to the Balkans.

Another critique comes from Robert Marshall-Andrews, a leading barrister and Labour MP, who disputes Mr Blair's description of the raids as humanitarian. "A true humanitarian approach would have been to keep out of the conflict, but to have provided generous financial help to Kosovo's refugees, including welcoming about 100,000 of them in the UK," he said.

Meanwhile, Mr Blair is also isolated from the UK's self-defining intellectual community, an experience he never enjoys. A series of "new right" historians have joined forces with the playwright Harold Pinter, the academic Germaine Greer and other leftwing thinkers to condemn Nato's action, while there has been no discernible movement of centre-left writers in support of the government.

Such unease is unwelcome to the government but not devastating, since most of the media are strongly behind it. The tabloids, notably the influential Sun and Daily Mail, have been particularly helpful, with their graphic descriptions of Serbian atrocities and depiction of Mr Milosevic as "Slobba".

Opinion polls show a majority of the UK public backs the Yugoslav campaign. But ministers are by no means taking public opinion for granted and remain anxious about what will happen to it when and if a UK serviceman is killed.

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Chernomyrdin selected as peace envoy

By Andrew Jack in Moscow

The appointment by President Boris Yeltsin yesterday of Victor Chernomyrdin as his special envoy to bring peace to Yugoslavia is seen by many as a direct attack on Yevgeny Primakov, the prime minister.

Mr Primakov, a former diplomat, had launched his own high-profile peace initiative by flying to Belgrade to meet the Yugoslav president shortly after the start of Nato's airstrikes.

Announcing the appointment of Mr Chernomyrdin, Dmitri Yakushkhin, the president's spokesman, pointedly stressed that the post was extremely important and dealt with the "key issue" pre-occupying Mr Yeltsin.

The nomination is the latest in a series of increasingly visible conflicts with Mr Primakov, and was seen by a number of observers as following the president's long-standing practice of undermining top government officials whom he perceives as a threat.

Last weekend, Mr Primakov took the exceptional step of appearing at short notice on Russian television to justify the actions of his government during its first six months in office, and to reiterate that he had no ambitions to run for president.

His action came after Mr Yeltsin made an aggressive speech late last week in which he said Mr Primakov was "useful to us at this stage" before adding, "later on, we will see".

In the last few weeks, Mr Yeltsin has held a number of high-profile meetings with rival political figures as speculation has continued about a government reshuffle notably targeting the most senior Communist members of the cabinet.

There appears in particular to have been a warming of relations with Yuri Luzhkov, the mayor of Moscow who has made little secret of his presidential ambitions and until recently was calling for Mr Yeltsin's resignation as swiftly as possible.

Sergei Markov, head of the Institute of Political Studies, said that Mr Chernomyrdin wanted to keep good relations with Mr Primakov but that his nomination had turned him into "an institutionalised rival".

He said the appointment provided a bridge between the presidential administration and Mr Chernomyrdin's political movement, Our Home is Russia, at a time when Mr Yeltsin was losing support from other parties.

Alliances will prove important in the build-up to a vote on his impeachment now scheduled for mid May, as well as in any changes to the constitution that could weaken the presidential powers after parliamentary elections due in December.

However, Our Home is Russia has been very considerably weakened since Mr Chernomyrdin's government was sacked in spring last year in another mercurial gesture by Mr Yeltsin towards a potential rival.

Mikhail Berger, editor of the daily newspaper Sevodnya, argued that Mr Chernomyrdin now had only the "slimmest chance" of being elected president.

He added that his appointment was "very strange" and showed that the Kremlin had "a shortage of people" from which it could choose.

Mr Chernomyrdin may nonetheless prove a useful negotiator in Yugoslavia, given his international reputation built during five years as Russia's prime minister.

He also acted as an intermediary for Mr Yeltsin this spring by holding talks with the International Monetary Fund in Washington ahead of its outline agreement to provide new loans.

His role as a long-time executive of Gazprom, the state gas monopoly, and a candidate to be re-elected to its board this summer, could also provide him with some leverage, since the company currently exports 2.6bn cubic metres of gas to Serbia a year.

هكذا من الأصل

HOLOCAUST TALKS CAMPAIGNERS MAY DROP OPPOSITION TO BANK

Deutsche may clear barrier to merger

By John Authers in New York

Deutsche Bank appears to have persuaded US Holocaust campaigners to drop their opposition to its acquisition of Bankers Trust as it enters a crucial conference on the issue today in New York, but it still faces class action lawsuits and threats of economic sanctions.

Alan Hevesi, the comptroller of New York city, who last year recommended that Deutsche's deal should not be allowed to proceed until it had settled claims from Holocaust victims, will hold a conference on the issue today. Deutsche will be represented, as will the lawyers suing them, the German government, and the US State Department, which is trying to broker a deal.

Elan Steinberg, executive director of the New York-based World Jewish Congress (WJC), said the organisation would recommend "a moratorium on sanctions against the German banks and industries for the next 60 days". He said the prohibition on sanctions would include any attempts to block the merger.

The merger requires regulatory clearances from the New York State Banking Department and from the *Federal Reserve*. Both would probably be needed with the next 60 days. Mr Steinberg said this was a "reflection on the progress that had been made" by the banks. Israel Singer, the WJC's secretary-general, will be meeting senior German government officials next week, as the attempt to agree a settlement gains momentum.

Last June, New York's Banking Department delayed its decision on the merger of UBS with Swiss Bank Corporation, which also faced claims from Holocaust survivors, until the WJC recommended that it should proceed.

The Swiss banks subsequently reached a $1.25bn settlement with Holocaust survivors, two weeks before a programme of sanctions by Mr Hevesi was due to begin. Mr Steinberg said: "It wasn't the merger threat which brought the Swiss banks to the table but the threat of the implementation of sanctions." Class action lawyers suing Deutsche and other German banks have clashed with the WJC over tactics in recent months. They have asked the Fed to take Deutsche's record on the Holocaust into account when deciding on the merger.

The plaintiffs' lawyers also seem unlikely to make strenuous attempts to prevent the merger, indicating they are broadly confident that the current talks will lead to a fair settlement.

However, other campaigners on the issue made clear that they will continue the pressure on Deutsche and other German companies.

Earlier this month, a new lawsuit was brought against the banks by the Los Angeles-based Simon Wiesenthal Centre under Californian state law. Gray Davis, the Democrat who was elected last year as the state's governor, joined the lawsuit as a private citizen.

The move was intended by campaigners to force the banks to address the issues raised by lawyers, as well as focus on the government negotiations.

Rabbi Abraham Cooper of the Simon Wiesenthal Centre, said: "Now that we have a true world economy, those of us involved in human rights are more empowered. Our hope is that this will indicate to the banks and the other firms that they must move quickly and fairly to get some relief for the victims who are still alive." He said Californian law made it easier for corporations to be held accountable for past unfair practices.

Alan Hevesi: said last year merger should not proceed Reuters

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DaimlerChrysler denies competition breach

By Uta Harnischfeger in Frankfurt and Emma Tucker in Brussels

The shares of DaimlerChrysler, the US-German carmaker, fell almost 2 per cent yesterday after it became known that the automotive group may have to pay stiff fines for breaching European Union competition laws.

The company confirmed that the EU had opened legal proceedings against it but said it was confident that it could refute all allegations.

The company has two months to answer European Commission allegations that it ordered dealers in Germany, Belgium, the Netherlands and Spain not to sell cars to consumers from other member states – a breach of the single market.

A Commission spokesman said that between 1985 and 1996, DaimlerChrysler sent circulars to dealers telling them not to sell to foreigners from outside their territories. Dealers who did not follow the advice risked being charged extra fees for the cars sold. The company is also accused of trying to prevent competition between dealers in Germany for big orders, including fleets of corporate cars and taxis.

If found culpable, DaimlerChrysler faces a fine of up to 10 per cent of worldwide turnover. The size of the fine would depend on the gravity of Daimler's alleged misdemeanours as well as their duration. Last year Volkswagen was fined €102m ($110m) for similar offences, the biggest penalty imposed by the Commission on a company. Volkswagen challenged the fine in the European court; the outcome is still pending.

Under special competition rules that apply to the European car sector, manufacturers can sell their cars through exclusive networks of authorised dealers but cannot refuse to sell to individuals or companies acting on behalf of individuals who take advantage of the single market to shop around for the best prices.

Regular surveys by the Commission show that car prices vary by as much as 40 per cent between the 15 EU member states, in spite of the single market.

"We only just received the allegations and we cannot say anything precise regarding [them]," the company said. "But we have always worked together with the Commission in the certainty that we never advised dealers not to *sell to non-residents*."

The decision to open a formal case against DaimlerChrysler caps a two-year Commission investigation, which included raids at the headquarters of Mercedes-Benz, now a member of the DaimlerChrysler group, in Stuttgart, Germany, and in subsidiaries in Belgium, the Netherlands and Spain.

Months before, the Commission also raided the premises of General Motor's Opel subsidiaries in the Netherlands, Belgium and Germany in relation to similar infringements. The spokesman said the Commission was still probing the case and would not say when a formal statement of objections might be sent. Opel yesterday confirmed that the Commission had raided one of its offices in the Netherlands in December 1996, but that the carmaker had not heard anything since.

DaimlerChrysler shares ended €1.70 down at €90.25.

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Sweden leaves room for tax cuts

By Nicholas George in Stockholm

The Swedish government left the door open for future tax cuts when it presented its spring budget yesterday but admitted it would struggle to meet its target of cutting "open unemployment" to 4 per cent by the end of 2000.

Describing the budget as one in which jobs were the most important theme, Bosse Ringholm, finance minister, presented government forecasts that showed "open unemployment" well above its own target, at 5.6 per cent in 2000. Total unemployment, which includes those on government schemes, is significantly higher.

On the question of tax cuts in 2000, the issue that prompted the resignation of his predecessor, Erik Åsbrink, on Monday, Mr Ringholm followed the line set by Göran Persson, prime minister, by saying he was prepared to look at the issue this autumn.

"Today there is no room for tax cuts before 2001 but if it transpires that there is room we are prepared to return with a proposal in this autumn's budget round," Mr Ringholm said.

On the back of buoyant public finances and under pressure from a Social Democratic party weary of almost five years of financial austerity, most analysts expect cuts along the lines of the SKr15bn-SKr20bn ($1.8bn-$2.4bn) hinted at by Mr Persson.

The budget did include extentions of previously announced minor tax cuts for low and middle income earners but there were also moves to increase prescription medicine costs.

Katharine Hoyland, an economist with J.P. Morgan, said the budget was largely neutral with the extent of any fiscal easing being exaggerated for political reasons.

She said Sweden had done a "phenomenal job" in cleaning up its public finances but now it was entering a period of stability in which the focus would slowly turn to tax cuts, probably to be announced this September. "It may not be the full SKr20bn, probably something half way," she said.

Mr Ringholm said the government retained its goal of 4 per cent "open unemployment" by the year 2000 although a weakening of the world economy had made reaching the target more difficult. He unveiled grants to encourage employers to hire the long-term unemployed and said more job measures would be taken if needed.

At the height of its crisis in 1993, Sweden had a budget deficit of more than 12 per cent of gross domestic product. Yesterday, Mr Ringholm was able to predict a budget surplus of 1.8 per cent of GDP in 1999 and 2.1 in 2000. Consolidated public debt is forecast to drop to 67.6 per cent of GDP this year.

Editorial Comment, Page 15

Bail-out of Czech groups agreed

By Robert Anderson in Prague

The Czech government yesterday agreed a plan to take several struggling private companies back under state control before selling them on to strategic investors.

The initiative is in response to fears of a wave of corporate insolvencies, which could prolong the current recession and further weaken the banking sector. But it is also recognition of the failure of the privatisation programme in the early 1990s through issuing vouchers to the public.

Within a month, the Social Democrat government will establish a development agency, led by a foreign adviser, which will take charge of loans made to up to 30 selected companies by state-controlled banks.

The agency will take control of the indebted companies, typically through a debt-equity swap, then extend or guarantee new working capital and install professional managers who will prepare for the entry of a strategic investor.

The European Bank for Reconstruction and Development and the International Finance Corporation, the investment arm of the World Bank, have already indicated they will consider participating in individual projects.

The plan is an attempt to remedy the deteriorating performance and increasing indebtedness of many privatised companies. The method of voucher privatisation left companies without strong majority owners who could inject new capital and push management to restructure, and instead allowed companies to drift and become reliant on soft bank loans.

The large state-controlled banks have already cut off credit to some big companies and are likely to become even stricter when they are privatised over the next year.

Chemapol, the chemicals conglomerate, was forced into insolvency by the banks in January, and several big engineering companies such as Skoda Plzen and CKD are also facing grave financial problems.

The government hopes its plan will stabilise the companies, accelerate restructuring and attract foreign investors, while at the same time improving the banks' loan portfolios ahead of privatisation. However, the plan has been criticised for its potential cost and for the risk that it might slow rather than accelerate the current shakeout in industry.

The plan has also been delayed because of a conflict between Pavel Mertlik, an economist appointed deputy premier for economic affairs, and Miroslav Gregr, industry minister and a former industrialist.

"The biggest mistake is that we have been discussing for half a year and doing nothing," said Kamil Janacek, chief economist of Komercni Banka, which will be closely involved in the scheme.

VENEZUELA CRISIS PRESIDENT INSISTS POPULARLY-ELECTED ASSEMBLY SHOULD DISSOLVE BOTH CONGRESS AND SUPREME COURT

Chávez pledges to abide by constitution

By Raymond Colitt in Caracas

Hugo Chávez, Venezuela's president, has pledged to abide by constitutional rule in his confrontation with Congress and the Supreme Court but insisted that a popularly-elected assembly that is to convene in July should dissolve both.

His assurances, in a nationally televised press conference, helped ease the immediate political tension of recent days but held out the prospects of a deeper, prolonged constitutional crisis in coming months.

Mr Chávez said he would resist calls to dissolve Congress or impose a state of emergency to obtain special powers enabling him to tackle the country's daunting economic challenges and implement state reform.

"We will win this battle against our enemies with their own laws with their own rules of the game, and in their own terrain," he said.

Hundreds of Chávez supporters continued their protest outside Congress yesterday, demanding its dissolution.

Yet Mr Chávez insisted that a popularly-elected constituent assembly to be convened, pending a plebiscite later this month, should eliminate not only the current constitution but also its institutional powers.

Despite a Supreme Court decision on Tuesday that *implied the assembly did not* have such powers, Mr Chávez insisted that "the constituent assembly will decide [its own limitations] when it convenes".

He said all public institutions required new legitimacy.

"The constituent assembly should dissolve Congress and – I add – the Supreme Court, to give birth to a new country."

Mr Chávez insisted on the democratic and peaceful *nature of this far-reaching* reform process. "For far less than this, other countries have gone to a fraternal war for a decade.

"What tyrant, what dictator, calls his people to a referendum," he said in response to accusations of authoritarianism.

Yet despite his pledge to remain within a democratic framework, investors are concerned about the prospects of the return of a constitutional crisis.

"The president has simply postponed the crisis until July," says Luis Henrique Ball, a prominent business leader.

Then it will be the constituent assembly instead of the president vying for power with the Supreme Court and Congress, he suggested.

"It confirms investors' worst fears because it means at least one year of ongoing political uncertainty," he said.

Democracy: a fragile plant in Latin America's political jungle

Banzer and Fujimori have revived fears of a fresh authoritarian trend, reports **Richard Lapper, Latin America Editor**

President Hugo Chávez's threats to dissolve the Venezuelan Congress and ignore the country's supreme court have provided a reminder that democracy is still fragile in many parts of Latin America.

Although elected politicians are in power everywhere in the region, democratic institutions and the rule of law are far from consolidated. Strongmen such as Mr Chávez retain their appeal in many countries.

Peru's President Alberto Fujimori, who dissolved Congress in 1992, is the most obvious example of a new authoritarian trend. But in several other smaller and economically weaker countries old-style *caudillos* are popular. General Hugo Banzer, who led a military government in Bolivia in the 1970s, was voted back into office last year.

Paraguay's General Lino Oviedo, another populist hardman, would have almost certainly followed suit had he been allowed to run.

"Fujimori gave a lot of other Latin American leaders ideas ... in 1992," says Elizabeth Joyce, an associate with the Madrid-based Institute for European-Latin American Relations (Irela). "It is the same with Chávez."

Underpinning the attraction is growing popular disillusionment with established political institutions and parties, and in many countries a collapse in faith in the legal system.

In the run up to Mr Fujimori's dissolution of Congress seven years ago, the traditional parties that dominated Peru's Congress systematically thwarted the new President's efforts to introduce economic reform and tackle a growing social crisis.

Democratic institutions and the rule of law are far from consolidated

President Chávez has clashed with Venezuela's Congress partly because he claims the majority traditional parties are not responding fast enough to the country's deep economic crisis. He has argued that the political and judicial system is riddled with inefficiency and corruption.

George Philip, reader in Latin American politics at the London School of Economics, argues that the evaporation of public confidence in Peruvian and Venezuelan institutions contributed to the emergence of authoritarianism.

In a recent Venezuelan poll, 48 per cent of respondents agreed that the country's Congress should be dissolved, while only 43 per cent are against such a move.

"There was significant official lawlessness, a rigged political system, patronage and non-compliance with the law by congressmen," says Mr Philip. "The electorate felt that anything was better than that. I have never seen such a rejection of established political parties."

"The old institutions were exhausted in Peru and Venezuela," says Ms Joyce.

Confidence in institutions is also at a low ebb in Colombia, where the influence of the drugs trade has contributed to the decline. Authoritarians have yet to gain the same political prominence – Harold Bedoya, a former general who advocated a draconian crackdown on endemic political violence, won less than 2 per cent of the votes in last year's presidential elections. Even so left-wing guerrillas and right-wing paramilitaries control large chunks of the country's territory.

The *caudillos* however, are not having matters all their own way. Indeed in many ways, Latin America has managed to break with its militaristic past.

In the southern cone of Argentina, Chile and Uruguay, as well as in Brazil, democracy has been consolidated since the end of military rule in the 1980s.

These governments are exercising more pressure on their neighbours and played an important part in defusing the recent tensions in Paraguay, when President Raul Cubas – an ally of Mr Oviedo – resigned.

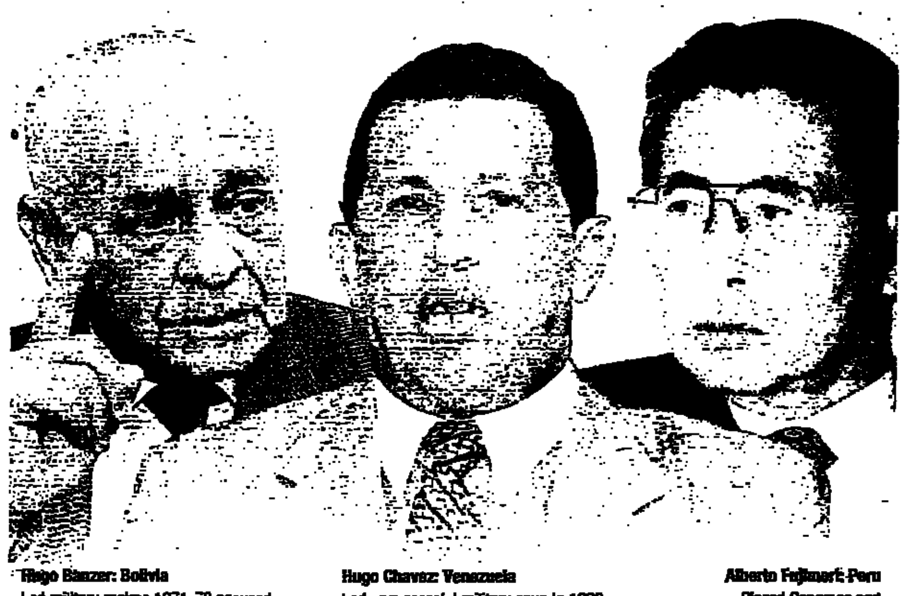
Argentina, Brazil and Uruguay warned they would suspend Paraguay from membership of Mercosur, the South American common market, if the army intervened in the political crisis.

Mr Philip talks about a "bifurcation" of Latin America with the strengthening of the rule of law in the southern cone contrasting with the "illiberalisation" in many other countries.

Even in the troubled Andes, there are many positive signs. Ecuador's President Jamil Mahuad has preferred to negotiate with Congress about controversial economic austerity measures, rather than ignore or circumvent opposition.

In spite of the region's economic difficulties, the armed forces have so far avoided the temptation to intervene. "Twenty-five years ago the military would have come in. Now it can't because the Americans won't let it and because ordinary people want democracy, Mr Philip says."

Latin America's strongmen: are they making a comeback?



Hugo Banzer: Bolivia
Led military regime 1971-78 accused of numerous human rights abuses
Elected president last year
Record of his previous regime under increasing fire at home and abroad

Hugo Chavez: Venezuela
Led unsuccessful military coup in 1992
Elected president last year
Threatens state of emergency to overcome opposition to economic plans
Threatens to dissolve Congress and Supreme Court

Alberto Fujimori: Peru
Closed Congress and suspended constitution in 1992
Re-elected as president in 1995
New legislature, controlled by the president
Pressures top judges to resign

Starr call to scrap special counsel statute

By Deborah McGregor in Washington

Kenneth Starr said yesterday that the independent counsel statute that empowered him should not be renewed, adding an unexpected new voice to the growing chorus of those who believe the law should be scrapped.

In an often defensive presentation to Congress, Mr Starr argued that the statute, and not he, was to blame for a process that often seemed to veer out of control, beginning with the investigation of a failed Arkansas land deal and ending up nearly sinking a president.

He struck an "I was only doing my job" stance to counter criticism that his investigation had been tainted by his Republican roots and aggressive tactics of his prosecutors in pursuing President Bill Clinton's affair with Monica Lewinsky.

"A duly authorised federal law enforcement investigation came to be characterised as yet another political game," Mr Starr told the Senate governmental affairs committee. "Law became politics by other means."

Mr Starr's remarks came as the Justice Department was conducting its own inquiry into his four-year, $46m investigation, weighing any grounds for Mr Starr's removal.

His office is still pursuing cases related to the original Whitewater land deal referral, though earlier this week his efforts suffered a setback when a federal jury acquitted Susan McDougal, a leading Whitewater figure loyal to the Clintons, on obstruction of justice charges.

Declaring the independent counsel statute to be "structurally unsound", Mr Starr said it tried to "cram a fourth branch of government into our three-branch system."

NEWS DIGEST

EX-VICE PRESIDENT PLEDGES INTEGRITY

Quayle formally launches campaign for White House

Former vice-president Dan Quayle yesterday formally launched his presidential campaign by pledging to restore integrity and responsibility to the White House in 2001.

"The time has come to reset the moral compass," Mr Quayle said. "We must not stand by and let our values be trashed." In his first bid for elective office since President Bill Clinton toppled the George Bush-Dan Quayle ticket six years ago, the former Indiana senator sought to attack Al Gore – the potential Democratic nominee who succeeded Mr Quayle as vice president.

He derided Mr Gore for being the president's chief defender during the impeachment saga, accusing the pair of showing "contempt for the values parents try to teach their children".

Mr Quayle also promoted his proposed 30 per cent across-the-board tax cut, billing it as a boon to middle-income families. And he portrayed himself as the best qualified potential commander-in-chief, recalling his participation in White House war councils and his service on foreign policy committees in the House and Senate. **AP, Huntington, Indiana**

RIFT OVER CORRUPTION ALLEGATIONS

Peru cabinet resigns

The Peruvian cabinet has resigned amid a rift over corruption allegations brought by Jorge Mufarech, the labour minister, against customs officials.

Just three months after a big ministerial reshuffle, the expected replacement of four cabinet ministers indicates that Alberto Fujimori, the president, has failed to find the right team to enhance his chances of re-election next year. Critics say his decision in January to include eight new ministers, who were mostly politically untried technocrats, has backfired. Mr Mufarech, an industrialist, triggered the rift with allegations against the customs authority, Sunad, and the private agencies that oversee Peruvian imports.

Mr Mufarech denounced the lack of action against gangs smuggling contraband into Peru and claimed there was a "family Mafia" working within the customs authority.

The allegations were challenged by leading members of Mr Fujimori's ruling Cambio 90-Nueva Mayoria alliance who called on Mr Mufarech to substantiate his allegations. **Jane Holligan, Lima**

GROWTH BOOSTED BY STOCK BUILD-UP

US business inventories rise

US businesses increased stocks of goods more vigorously than anticipated in February to meet strong demand, the Commerce Department reported yesterday. The value of total inventories at retailers, wholesalers and manufacturers increased 0.4 per cent to a seasonally adjusted $1,091bn after being unchanged in January.

Wall Street economists forecast a 0.2 per cent rise in February inventories and implied first quarter economic growth was getting a boost from the goods build-up.

Sales in February climbed 0.9 per cent to a seasonally adjusted $799.27bn, after a 0.2 per cent fall. Vehicle inventories rose in February by 1.4 per cent to $94.78bn after a 0.6 per cent rise in January. **Reuters, Washington**

US SAVINGS

$300 tax credit plan

Millions of working Americans would be eligible for $300 in tax credits to encourage savings in new personal investment accounts for retirement, under a Clinton administration plan announced yesterday.

An administration official said the long-awaited plan would provide an annual tax credit of $300 for workers to invest in a personal savings account similar to the 401(k) plans that many businesses offer their workers.

In addition, up to $700 would be provided as a government match to money workers save on their own.

The plan is targeted at low and middle income workers and the government matching money for own savings would start to be phased out at household incomes around $40,000. **AP, Washington**

Fearful citizens buy guns for Y2000 worst

By Andrew Edgecliffe-Johnson in New York

A small but significant portion of the American public has more fundamental concerns about the approach of the year 2000 than whether their personal computer will still work on New Year's Day.

While corporate America is spending millions to tackle the so-called Y2K issue, gun dealers around the country are reporting a sharp increase in sales, and saying that concerned citizens are *planning for the* worst.

Larry Hyatt, manager of Hyatt Gun Shop in Charlotte, North Carolina, estimates that his sales are up more than 20 per cent since the start of the year.

Many of Mr Hyatt's customers are concerned that if computer systems fail, power cuts could leave the emergency services too strained to be able to protect them. "The barbarians would come out quickly," he declares.

"A lot of the buyers are spending $700-$800 a time. This is middle and upper-middle class buying".

Millennial self-preservation has become a popular theme on gun-related internet message boards, but some Wall Street analysts are also taking the trend seriously.

David Guthrie of Morgan Keegan said that some of the dealers he monitored had reported sales increases of 20-30 per cent.

Such figures may be exaggerated by the fact that Y2K fears have coincided with a spate of litigation against US gun manufacturers.

Some gun-lovers are concerned that the courts could crack down on arms ownership, Mr Guthrie said. "They are thinking, 'I'd better buy one while I've got the chance'."

Ross Null, the manager of a big Atlanta gun dealer called Candler's, said that panic buying was nothing new. Before the introduction of the 1994 Brady law, which restricted gun buying, he witnessed a surge in sales.

The Sporting Arms and Ammunition Manufacturers' Institute said that reliable figures had yet to be compiled for this year's sales.

"Obviously, there's a segment of the gun-owning public that's very concerned about the issue," a spokesman said, but the institute attributed much of the rise to the popularity of shooting sports.

However, Mr Hyatt said that the strongest sales had been for the kind of reliable weapons used by the police and military, rather than for hunting or collectors' guns.

His store would employ armed guards over the New Year in case power cuts caused the burglar alarms to malfunction.

Mr Null was cautious about millennial alarmism: "I know a few people that are ready to go, but Hell, the doom and gloomers are always going to be out there."

MAPPING HUMAN DNA DRUG COMPANIES, GOVERNMENT AND ACADEMICS TO COLLABORATE IN $45m PROJECT

Scientists combine in bid to crack gene code

By David Pilling in London

The DNA of 40 people from around the world is to be "mapped" in a global effort to determine how infinitesimal modifications in the genetic code underlie the basic differences between individuals.

The two-year $45m project, announced today, is a collaboration between academia and industry. It could have tremendous value for medicine, enabling doctors to "individualise" therapies by adapting them to fit a patient's unique genetic profile.

The "genetic road map", which will be made freely available to researchers worldwide, is being funded by the Wellcome Trust, the UK-based research charity, and by 10 US and European pharmaceutical companies.

Unusually, pharmaceutical companies have agreed to work together by treating the genetic information as "pre-competitive" – data they can share with each other and the world at large.

This is partly to sidestep any ethical or anti-trust issues related to "owning" the human blueprint. It also reflects their concerns that smaller biotechnology companies, such as Genset of France, may patent the information before they can get to it. By combining their considerable muscle they hope to squash the oppostion – or at least level the playing field.

"This sets a paradigm going into the future of co-operation between private organisations, public organisations and the government....without duplication of effort," said Arthur Holden, chairman of the consortium. The information would be "freely available to all academic institutions, large or small".

The $45m – of which Wellcome is putting up $14m – will fund researchers at five academic institutions to create a high-resolution map of the human genome, the complete set of genetic instructions contained in the DNA of every human cell.

The project is the latest step in decoding DNA, the double-helix structure of which was discovered by James Watson and Francis Crick in 1953. It builds on the Human Genome Project, an international effort to spell out the A, C, G and T nucleotides – or "chemical letters" – strung out in 3bn pairs along every strand of DNA. But unlike that research, which will by next year produce a draft map of the archetypal human, the new consortium will concentrate on what makes people different.

The DNA of any two humans is normally 99.9 per cent identical. But about one in every 1,000 nucleotides along the DNA strand are different – instead of an A, for example, there may be a T or a G. That could have no effect whatsoever, it might be implicated in eye or hair colour, or it could set off a cascade of events ending in disease.

Single nucleotide polymorphisms (SNPs), as they are called, are also extremely effective genetic markers, like flashing lights along a strand of DNA. They should enable scientists to home in on areas of interest – especially genes implicated in specific diseases.

The consortium hopes to create a "snip" map with 150,000 signposts. This would then be compared with DNA samples, say of a population group with asthma, in order to see if they shared similar genetic variations. One scientist says it is like laying a standard ladder over another as a method of identifying which rungs are out of kilter. Paul Herrling, head of research at Novartis, a Swiss pharmaceutical company and one of the consortium members, says drug companies will use the "snip" map to search for genes and their function. Membership of the consortium, he said, would not prevent companies from patenting an individual gene – common practice in the life science industry.

Watson, left, and Crick pictured in 1953 with their model of the DNA molecule Science Photo Library

The map may also help companies design drugs to combat sub-sets of diseases that are today regarded as a single condition, such as Alzheimer's or cancer, he said. By unmasking the genetic underpinnings of a disease, rather than its mere symptoms, scientists should be able to target treatment more effectively.

Dr Herrling said knowledge of genetic predisposition could revolutionise medicine. Diseases are usually caused by a combination of genetic and environmental factors, but it is not always easy to identify – or modify – the environment.

The discovery that sailors who ate lemons did not contract scurvy was relatively straightforward, said Dr Herrling. But in many diseases, it was more difficult identify the particular "lemon" involved. It might well be easier to go straight for the genetic root cause.

NAZARETH DISPUTE PATRIARCHS TO CLOSE CHURCHES UNLESS GOVERNMENT INTERVENES

Israel's Christians threaten church protest

By Judy Dempsey in Jerusalem

Israel's three Christian Patriarchs have threatened to close all their churches in Israel indefinitely if the Israeli government fails to resolve a religious dispute in Nazareth which has twice erupted in violence.

The threat, made in public statement disclosed yesterday by the Armenian, Greek and Latin (Catholic) Patriarchs in Jerusalem, could disrupt next year's millennium celebrations.

It could also lead to the postponement of the first planned visit to the region next March by Pope John Paul II, damaging fragile relations between Israel and the Vatican. Ariel Sharon, Israeli foreign minister, is to visit the Vatican this month to discuss the dispute with the Pope.

But officials in Nazareth as well as senior opposition politicians said Benjamin Netanyahu's government and his Likud party was stalling on efforts to secure a compromise until after next month's parliamentary and premiership elections.

Likud activists and the ultra-Orthodox religious parties have been trying to woo Nazareth's Moslem vote to boost Mr Netanyahu's re-election chances.

Less than 5 per cent of all Israeli Arab citizens voted for him in the 1996 election.

At issue is the status of a plot of land on front of the Church of the Annunciation in Nazareth, Israel's largest Palestinian city in which Moslems make up 44 per cent of the 60,000 population. The remainder are Christian.

The plot, expropriated after 1948 by the Israel Lands Authority, a state body which manages 93 per cent of all land in the country, was handed over to Nazareth's city council two years ago. The intention was to build a large square on front of the church to accommodate pilgrims during the millennium. Israel expects 2m pilgrims, twice as many as in 1998.

Since then, Islamists in the city have claimed the plot originally belonged to the Waqf, the Moslem religious trust. After the Islamic Party won 10 of the city's 19 seats in last November's municipal elections, it stepped up demands to reclaim the land and build a large mosque on it – in front of the church.

Ramiz Jaraisy, the Christian communist mayor of Nazareth, repeatedly appealed to the courts to resolve the issue as tensions between both communities increased. Christmas and Easter celebrations ended in violence after the communities clashed, ending decades of peaceful co-existence. In both cases, the police, according to witnesses, did little to stop the violence.

To complicate matters, Mr Jaraisy has been unable to form a new local government, reluctant to give the Islamic party certain positions or meet their demands to build the mosque.

The Israeli government has threatened to impose an administration on the city. City officials said this would demoralise moderate Christian and Moslem communities.

NEWS DIGEST

NIGERIA

Fears that army will doctor new constitution

Nigeria's main human rights groups yesterday expressed concern that the outgoing military government was planning to impose controls over the incoming civilian government by doctoring a new constitution.

Six weeks before Olusegun Obasanjo, the president elect, is due to take office, the military government of General Abdulsalami Abubakar has yet to publish the constitution which will determine the nature and length of his rule.

However, the Transition Monitoring Group, an umbrella organisation grouping more than 60 human rights groups, said yesterday there were strong indications that members of the Provisional Ruling Council intended to include a clause limiting the president's ability to sack service chiefs. Clement Nwankwo, council chairman, said he had been informed that the clause would make it impossible for the head of state to remove service chiefs without the support of the army council on which they sit. Council members added that there were indications that a blanket amnesty for army officers involved in economic and political crimes during the past 15 years of military rule could also be included. **William Wallis, Lagos**

JEWISH SETTLEMENTS

Increase in homes built

Peace Now, the Israeli peace movement, said yesterday that building starts for Jewish settlements in the West Bank increased 105 per cent in 1998 compared to a 20 per cent decline in new housing starts within the Green Line, Israel's pre-1968 boundaries.

Peace Now said the figures, extrapolated from the Central Bureau of Statistics, refuted the claim by Benjamin Netanyahu, Israeli prime minister, that the increase was a response to natural growth. It said about 9 per cent of all new housing was built in the settlements, compared to 4 per cent in 1997. Meanwhile, US diplomats would not confirm a report in Ha'Aretz, Israel's leading daily, which claimed that US satellites had identified 12 new settlements in the West Bank established since last October's Wye peace accord between Israel and the Palestinians. **Judy Dempsey, Jerusalem**

IRAN

Anti-aircraft missile tested

Iran yesterday successfully tested what it called an advanced anti-aircraft missile, Iranian state television reported. "It was fired this morning and it successfully hit and destroyed a mock enemy target," the television quoted a military spokesman as saying. The television showed footage of the missile test, apparently carried out in a remote region. The military spokesman said the missile would satisfy Iran's requirements for such medium and long-range weapons. Iran in July test-fired its medium-range Shehab-3 missile, whose 1,300km range puts Israel within its reach.

The US and Israel have repeatedly voiced concern over Iran's missile capacity, urging Russia and China to stop any transfers of technology to the Islamic republic. Tehran denies receiving foreign help for its missile programme which it says is for deterrence. **Reuters, Tehran**

Pakistan in tit-for-tat missile test

By Farhan Bokhari in Islamabad, Mark Nicholson in New Delhi, Stephen Fidler in Washington and Andrew Jack in Moscow

Pakistan yesterday carried out a test of a long-range version of its Ghauri-II missile, offering a near-immediate response to India's test on Sunday of its own extended range and nuclear-capable Agni II missile.

Senior officials said the missile, an upgraded version of the Ghauri-I tested last year, was successfully fired from a test site 75km south of Islamabad at a target in the south west province of Baluchistan, a distance of 1,380km. Security analysts, however, said that its range could be increased to 2,300km if the payload were reduced from the tested 1,000kg, giving it the longest flight capability among Pakistan's arsenal of tested nuclear-capable missiles.

Though the matching missile tests, which followed the pattern of India and Pakistan's nuclear tests last year, will dismay western and other capitals afraid of a gathering South Asian arms race, India's reaction was muted. Both sides agreed at a prime ministerial summit in Lahore to give advance warning of any missile tests, these were duly given in each case, according to both Indian and Pakistani officials.

"We all knew that our neighbour would also test their defence capability after we tested ours," said George Fernandes, India's defence minister. Jaswant Singh, India's foreign minister, said there was "no arms race, no danger", adding that the test would not affect planned bilateral talks between the south Asian rivals in Delhi next month.

The US expressed regret yesterday over Pakistan's test, about which it was informed a day in advance. Karl Inderfurth, assistant secretary of state for south Asia, told a Senate hearing: "We had hoped that Pakistan would not respond in a tit-for-tat fashion to India's missile test on Sunday. Both sides have said they want to meet their security requirements 'at the lowest possible levels'. We would now like to see concrete steps from both countries that they intend to do so."

He said India bore a special responsibility for having been the first country to carry out a test. However, he expressed optimism about the dialogue between the two countries.

Further meetings should take place "with urgency" to build confidence that nuclear weapons would not be used, he said.

The Russian government yesterday said news of Pakistan's test was "received with alarm", while stressing that the visit of Nawaz Sharif, Pakistani prime minister, to Moscow would go ahead as planned next week.

In a statement echoing its criticism of India's recent test launches, the Russian foreign ministry said: "We believe that the appearance of missiles with such a range on the sub-continent goes against the interests of non-proliferation and disarmament." The reports said Pakistan's missile programme would be raised as part of the discussions during the forthcoming visit.

Pakistani analysts said the missile test had finally demonstrated Pakistan's capability of hitting most cities deep in neighbouring India, its neighbour and regional rival, with whom it has fought three wars.

The Pakistani NNI news agency said that a first test was also planned today of the 800km-range Shaheen missile, but there was no official confirmation.

Yesterday's test followed growing pressure from nationalists on Mr Sharif, demanding an immediate response to the Indian test.

The missile test came against a backdrop of recent efforts by Pakistan and India to continue their dialogue on resolving disputes.

Taiwan prepares to open up telecoms

By Mure Dickie in Taipei

Taiwan is making final preparations to break Chunghwa Telecommunications' monopoly on fixed-line services, the heart of the island's communications market. However, important questions remain on how the liberalisation will work.

The Directorate-General of Telecommunications (DGT) has drawn up draft rules for ministerial approval this week that will open fixed-line services to consortia with the deep pockets needed to take on a state-run company entrenched by decades as a monopoly supplier.

The regulator hopes to approve applicants by the end of December. It expects interest from newcomers eager to wrest away some of Chunghwa's 11m customers and to meet surging demand for broad-band services for internet access and multimedia applications.

However, the DGT has yet to resolve the issue of newcomers' access to essential infrastructure, with Chunghwa fighting to retain as much control as possible. "We've already put an infrastructure sharing mandate in our regulations... Chunghwa opposes this article," said a DGT official.

Some potential applicants are opposing a requirement proposed by the DGT that they muster a minimum of T$40bn (US$1.2bn) in paid-in capital – a hurdle the regulator considers essential to ensure they can challenge a titan with assets totalling about T$400bn.

The DGT – once part of the monopoly it is now dismantling – has also called for the limit on foreign direct and indirect ownership of applicants to be loosened to 60 per cent from 20 per cent. The change is in line with Taiwan's application to the World Trade Organisation, but requires parliamentary approval.

Some potential contenders may be disturbed by the DGT's decision not to limit the number of licences it will issue. "I don't think the island is big enough to support perhaps more than two," said Dominic Grant of local brokerage Primasia.

With the high initial investment required, newcomers are expected to take from seven to 10 years to break even. Some analysts say the eventual size of the fixed-line market may be less than expected as wireless services break into data communications.

Chunghwa is a formidable competitor, but its monopoly mindset could be an advantage for new players. Its share of the mobile telephony market has plunged since the sector was opened a year ago, and some expect it to struggle against more innovative fixed-line rivals.

VERDICT UNLEASHES PROTESTS CONVICTION OF ABUSING POWER TO CONCEAL ALLEGED SEXUAL MISDEEDS

Anwar is jailed for six years

By Sheila McNulty in Kuala Lumpur

Anwar Ibrahim, the sacked Malaysian deputy prime minister, was convicted yesterday of abusing his power to conceal alleged sexual misdeeds and sentenced to six years in prison.

The verdict provoked condemnation from the outside world and unleashed protests by thousands in the Malaysian capital.

As the sentence was read out, silence fell over the court's public gallery, crammed with relatives, supporters, diplomats and journalists. Mr Anwar's wife, Wan Azizah Wan Ismail, gasped "Oh, my God" and some of their six children began to cry.

Outside, police fired water laced with eye-irritating chemicals to disperse demonstrators as scuffles broke out with riot squads armed with rattan canes. Some protesters hurled rocks at police and others lit bonfires in the streets. A number were beaten and arrested.

Each of the four counts the court considered carried a maximum penalty of 14 years in jail and a fine of M$20,000 (US$5,260). Mr Anwar was sentenced to six years on each count, to be served concurrently.

Mr Anwar, who had predicted he would get two to four years, gestured through the bars of the wooden pen, in which he was confined throughout the five-month trial, for his family to remain calm. Then he smiled, gave them the thumbs up and flexed his arm to indicate the popular power unleashed by his trial, detention and beating by the then-police chief.

Through the darkened windows of the heavily guarded and locked courtroom, Mr Anwar's supporters could be seen massing and heard chanting *reformasi* (reform), rallying cry of the political backlash against the administration of Mahathir Mohamad, Malaysia's prime minister. "Die, Mahathir," others shouted.

Mr Anwar insists the charges are part of a high-level political conspiracy to prevent him challenging Dr Mahathir's 18-year regime. After the guilty verdict was pronounced, Mr Anwar retorted to journalists: "As per instructions." His lawyers said they would appeal.

Before sentencing, Mr Anwar won the right to make his own plea of mitigation and turned it into a political tirade against the administration. In spite of the objections of Judge Augustine Paul and the attorney general, Mohtar Abdullah, who led the prosecution. "Why are you scared? Just listen for a few minutes," Mr Anwar said.

"Perhaps this is just a small sacrifice on my part to convince the people how urgent and vital this country needs reform," he continued, reading from a five-page, computer printed address that his wife distributed to reporters. "The people know my conviction was according to the script written by the conspirators. It is not the court but the conspirators who are sending me to jail."

But Judge Paul insisted he alone had formulated the verdict: "It is from me, from within me." He said his 394-page decision would be released later but it took into account Mr Anwar's senior position and the gravity of the offences.

The judge rejected bail pending the appeal. Mr Anwar's lawyers attempted in vain to have the seven months he has already served count toward his sentence, but Mr Anwar told them: "Don't appeal that. Leave it."

Anwar awakens Malaysians' political awareness

Sheila McNulty assesses the likely consequences of the trial and sentencing of Mahathir's once-favoured heir apparent

Malaysia's prison doors clanked firmly shut behind the sacked deputy prime minister, Anwar Ibrahim, yesterday, but the political consciousness that his police beating and controversial trial have awakened brought thousands of demonstrators into the streets.

Police fired round after round of water laced with eye-burning chemicals to disperse the crowds but they simply ran out of firing range and returned again to shout for the reform of the 18-year administration of Mahathir Mohamad, the prime minister.

They ripped up and hurled chunks of the cobblestone pavement at police, set bonfires in the streets, and broke the windows of a car of a private television station they accused of pro-government coverage. Riot police seized some protesters and hit them with batons until they bled.

Abdullah Ahmad Badawi, who succeeded Mr Anwar as deputy prime minister, appealed for calm and told the people to accept the High Court verdict.

But the outpouring of rage revealed just how much Dr Mahathir had miscalculated when he withdrew Mr Anwar in September as his anointed successor for having "low morals". The widespread popularity Dr Mahathir enjoyed for developing Malaysia and balancing the interests of its Malay, Chinese and Indian people for more than a decade has been superseded in the minds of many Malaysians by what they see as a last desperate act to cling on to power.

"Every dictator in history has, toward the end of his career, made inexplicable mistakes," says Chandra Muzaffar, a political scientist turned opposition politician. "He is depending on the instruments of power to keep him where he is."

Mr Anwar's conviction and sentencing to six years in prison prevents the 51-year-old from posing a direct challenge to Dr Mahathir for the next 11 years (the law bars him from running for office for five years after he emerges from jail). And there are another six charges pending against Mr Anwar.

There is nobody else who political analysts believe could pose a substantive threat. And, after seeing what has happened to Mr Anwar, there does not appear to be anyone in the upper echelons of power who would dare try to mount one.

"It's an important development, but it's not closure," says K.S. Jomo, a political economist. "Things are still quite fluid."

Mr Anwar has managed to maintain a following for the seven months he has been behind bars and, although he is out of Dr Mahathir's way, the prime minister's support has continued to erode.

Political analysts suspected what many viewed as a harsh sentence would bring still more Malaysians over to Mr Anwar's side.

Many supporters openly wept outside the courthouse. "Six years is no justice at all," said an elderly woman wiping away her tears. "This is just one man's power. No one else's. Only the citizens can change things. I hope this will make them wake up."

The street demonstrations signalled the people had already arisen. Aliran, the Malaysian reform movement, said the case had led Malaysians to question the process.

"Anwar's case was doomed as the trial progressed," the group said, citing how charges had been amended to ease the burden of proof, defence evidence was deemed inadmissible, and the judge ruled that defence witnesses' testimony had to be submitted beforehand, forcing the defence to reveal its hand.

However, stressing his independence, High Court Judge Augustine Paul insisted he had reached the verdict of his own accord and to the best of his abilities.

Tian Chuan, a Malaysian opposition leader, is arrested yesterday Reuters

Reaction from foreign countries ranged from encouragement for Mr Anwar by the Philippines to outright criticism by politicians in Australia.

Robin Cook, British foreign secretary, said Britain would be studying the case with its European Union partners: "We have concluded that aspects of the case give real cause for concern, in particular the relationship between the executive and the judiciary in Malaysia."

The US echoes that view. "There were serious flaws in the way they proceeded with this prosecution and we have communicated our concern with the prosecution and with the entire process that led to this verdict," said Joe Lockhart, the White House spokesman.

But, regardless of such concerns, Dr Mahathir is firmly entrenched and the opposition must overcome incredible odds presented by its fragmentation to win the general election that must be held by April 2000 at the latest.

Mr Anwar's wife, Wan Azizah Wan Ismail, has established her own party and is inviting all races to join in an unusual bid to unite the three ethnic groups that have long been divided along party lines.

If Malaysians cannot put aside their differences, then Mr Anwar's supporters are left to hope Dr Mahathir will soon step aside and a more lenient administration might release Mr Anwar early. Dr Mahathir is 73, and, though he has maintained his usual energetic schedule since the political crisis began, the prime minister is not as resilient as he used to be. He just emerged from the hospital after 10 days of treatment for bronchitis.

"The prison gates may have shut today on Anwar Ibrahim, but the public debate about human rights and political freedom that his case has generated in Malaysia cannot be so easily silenced," said the London-based human rights group, Amnesty International.

Rise in Japanese bankrupt company debt

By Alexandra Nusbaum in Tokyo

Japan's corporate bankruptcy debt climbed to a high of Y3,110bn ($26bn) in March, fuelled by failures at large non-bank financial institutions before the end of the fiscal year, according to Tokyo Shoko Research.

Bankruptcy debt for the full year ending March 31 also grew to Y15,130bn. The continued high level of debt in bankrupt companies is particularly bad news for Japan's banks, which have struggled to clean up their balance sheets and dispose of non-performing loans in return for a Y7,450bn injection of public funds.

While the level of bankruptcy debt was up 92.2 per cent in March from the previous year, the number of bankruptcies fell for the fifth consecutive month. The number of cases dropped to 1,235, down 31.8 per cent from a year ago.

However, the number of very large bankruptcies – those with debts exceeding Y10bn – climbed in March from 20 last year to 37 this year. Nippon Enterprise Development, a subsidiary of the failed Long Term Credit Bank, declared bad debts of Y510bn on March 31, according to Teikoku Data Bank. And Apollo Leasing, another non-bank financial institution with debts of Y500bn, went into special liquidation last month.

The number of bankruptcy cases for the fiscal year dropped 1.2 per cent to 17,272. This was better than mid-year projections of 20,000, because of a government loan guarantee programme which gave some relief to smaller companies, according to Tokyo Shoko.

Last November, the government launched a Y20,000bn scheme which provides companies with loans guaranteed by the Credit Guarantee Corporation, a state institution. It is expected that an additional Y10,000bn will be made available.

There are concerns that, in the absence of an economic recovery, the loan guarantee programme will serve only as a short-term fix that postpones additional bankruptcies. "Given the rate of non-performing loans at commercial banks and the no-questions-asked policy of the government, these loans have a very high loss potential – maybe as much as 20 per cent," said Chris Calderwood, chief economist at Jardine Fleming Securities.

In the first half of fiscal year 1998-99, Japan's 10 leading banks recovered only 22.5 per cent of their bad loans.

Analysts question the long term benefits of the loan guarantee programme. "The credit guarantees might not be worth the cost," said Mr Calderwood. "They are not contributing any forward momentum to the economy and may be hampering its natural recovery."

Internet use set to grow six-fold in India

By Mark Nicholson in New Delhi

India's growing base of internet subscribers could surge six-fold by the end of next year and levels of net-based commercial transactions more than double, according to a study by the National Association of Software and Service Companies, the industry lobby group.

More than 250,000 Indians are already connected to the net, up by 80,000 since the government allowed private internet service providers to challenge the state monopoly last November, said the Nasscom survey. Commercial internet services were introduced to India in 1995 by VSNL, the state international telecoms provider, which held a net service monopoly until the liberalisation.

Nasscom, which represents more than 500 Indian software companies, estimates that the subscriber base could grow to 1.5m by the end of next year based on its estimates of pending demand, provided the government moves faster to allow new private ISPs to establish their own international access gateways – still a VSNL preserve.

More than 90 companies have taken ISP licences since last November's liberalisation, though only a small handful have begun services, including MTNL, another state telecoms operator, and Satyam Infoway, the first private operator.

Dewang Mehta, Nasscom president, says subscriber growth – and the fortunes of new ISPs – will depend heavily on government agencies giving approvals for private players to set up international access independent of VSNL.

He said at least 15 new licencees sought such independent access, but that approvals had been delayed by government agencies, despite being permitted under the November liberalisation.

The Nasscom survey estimates that 78 per cent of personal computers sold last year in India were bought primarily for internet use, reckoning that more than 40 ISPs would be operating by the end of this year, perhaps five with their own international gateways. India has a PC base of 3m units.

The survey, conducted in more than 40 cities, estimates that the ratio of users to internet connections in India far exceeds global norms of 3-1, putting the current number of Indian users at 800,000. It believes this figure could exceed 5m by 2002.

For the past financial year, the industry body puts the value of commercial transactions conducted by Indian companies over the net at just Rs120m ($2.8m), but says this will rise to Rs300m in the year ending next March.

Sun

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Rise in Japanese bankrupt company debt

com

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No dot for .com?

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What's more, our Java™ technologies are extending the whole notion of the Net. Out to smart cards, cell phones and pagers. And soon out to wristwatches and thermostats, too.

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We think you'd miss it if it weren't there.

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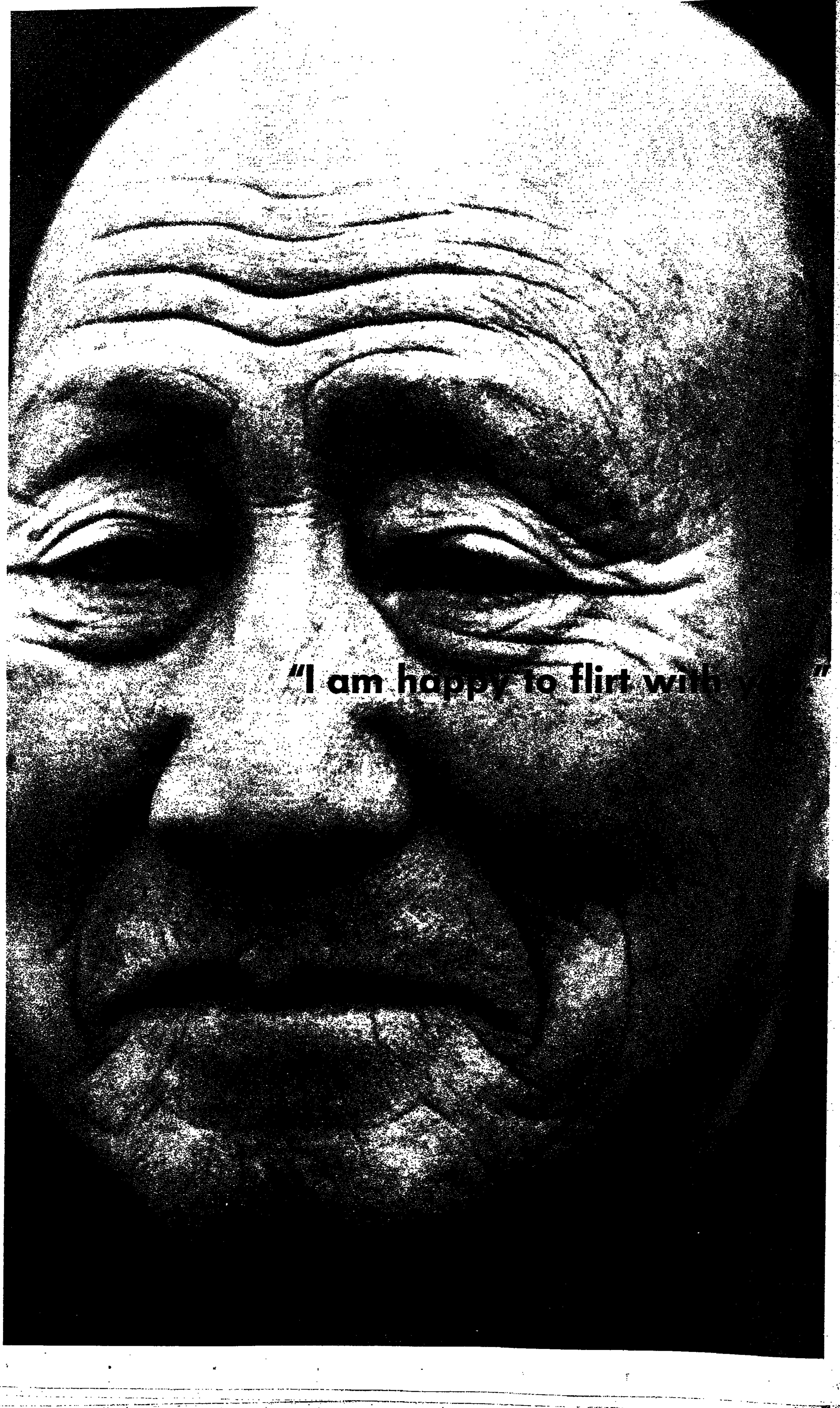

"I am happy to flirt with

هكذا من الأصل

Top buyers in US spurn modified corn

By Nikki Tait in Chicago

Archer Daniels Midland, one of the biggest US agribusinesses and a leading corn processor, yesterday said it would not buy or trade any genetically modified (GM) corn which had not been approved by the European Union.

ADM's statement follows a similar stance taken earlier this week by A.E. Staley, the US corn-processing subsidiary of Britain's Tate & Lyle, and means that two of the leading corn buyers in the US have decided to cold-shoulder non EU-approved corn – at least for the time being – in an attempt to avoid trade problems.

News of ADM's position prompted concern in the Midwest grain belt. Scott McFarlane, National Corn Growers Association director with responsibility for industry relations, said he had been inundated with calls from farmers asking what they should do.

The issue arises because of EU concern over GM crops, and potential trade difficulties for anyone handling non-approved produce. Four varieties of GM corn grown in the US have been given approval, but another seven have not.

The NCGA estimates that up to 40 per cent of all corn grown in the US this year will come from GM seed, and that about 10 per cent could involve varieties not approved in Europe.

Last year alone, the US corn industry calculates, EU concerns over transgenic crops and the slow approval process cost it $200m in potential corn exports. As recently as last month Richard Rominger, deputy secretary at the US Department of Agriculture, was warning that "since several US biotech corn varieties remain unapproved in the EU, it's entirely possible that we won't export any corn to the EU this year".

The ADM/Staley stance attempts to ensure that all corn and corn-related products from these companies comply with European trade requirements.

The issue of how to handle the European situation is believed to have been widely discussed within the industry over recent months, and growers were warned that if they bought non EU-approved GM cornseed they should expect to have to sell their crop into the domestic feed market.

The NCGA said it was not surprised by the companies' move, but acknowledged that this would limit outlets for corn.

Mr McFarlane added that the association was advising growers who had bought unapproved seed and believed they no longer had a feasible outlet for their produce to exchange that seed for traditional varieties. "Most of those growers, though, have a domestic feed market in mind," he said.

US is urged to step in to kickstart Caspian gas project

Political action is needed for an agreement on a pipeline from Turkmenistan to Turkey, reports **Robert Corzine**

PSG, the company promoting a controversial trans-Caspian natural gas pipeline, is hoping the US government will orchestrate a meeting of the four countries involved as a way of kickstarting the $2.5bn-$3.5bn project.

PSG, which is owned by Bechtel, the US construction group and GE Capital, says a joint meeting of the governments of Turkmenistan, Azerbaijan, Georgia and Turkey is essential to meet a tight timetable that envisages financial closure within 18 months and a 2003 start-up date.

"Getting all four countries in the same room would be a big milestone," says Edward Smith, PSG's president.

The aim is to reach "a consortium agreement" that would spell out the rights and obligations of the various governments. It would also cover security, tax and land rights issues.

But it would not include details of a gas sales contract to Turkey, according to Mr Smith.

The project, which has the political support of the US government, would ship gas from Turkmenistan to Turkey via the Caspian Sea, Azerbaijan and Georgia.

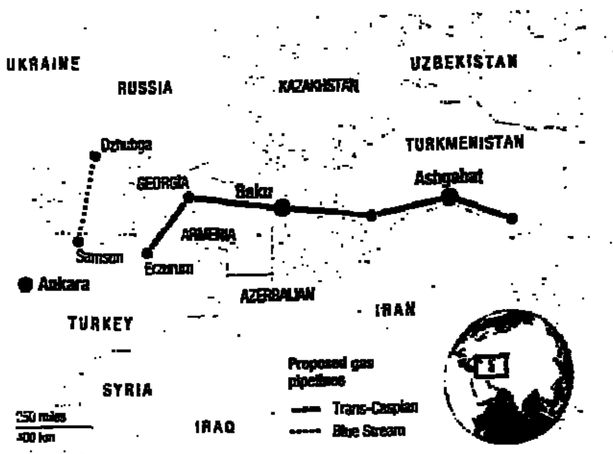
Washington sees the project as a key element of its strategy to underpin the independence of the former Soviet republics in the Caspian Sea region by opening an "energy export corridor" that bypasses Russia and Iran, the two dominant powers in the area.

Mr Smith, who previously ran the Caspian Pipeline Consortium that is building an oil export line from Kazakhstan to the Russian Black Sea coast, says PSG is not seeking US subsidies. But it is keen to secure political risk coverage and an indemnity covering potential problems over the disputed legal status of the Caspian Sea.

The trans-Caspian gas project has provoked a strong reaction from Iran, which has an agreement with Turkmenistan to build a gas pipeline to Turkey on its territory.

Gazprom, Russia's biggest company and the world's largest gas producer, recently launched a competing project – Bluestream – which involves shipping large volumes of gas to Turkey via the world's deepest subsea pipeline across the Black Sea.

Mr Smith admits there is insufficient Turkish demand to support both Bluestream and a trans-Caspian line. But he held out the possibility of co-operation with Gazprom if Bluestream does not materialise.



Smaller volumes of Russian gas for the Turkish market could enter a trans-Caspian line at Tbilisi in Georgia, he said.

Some industry observers have been sceptical about the prospects for a trans-Caspian gas pipeline, in part because of the distances involved.

Although the first phase of the project would rely on gas produced in western Turkmenistan close to the Caspian Sea, the main Turkmen gas fields are 700km further away in the east of the country.

Mr Smith accepts that "Turkmen gas is disadvantaged," but says that will be reflected in the netback price that the Ashkabad government will receive: "Their real objective is to get investment into the country."

Another potential hurdle is the attitude of Azerbaijan and Georgia, the two transit countries. "There is always a temptation for transit countries to demand too much," says Mr Smith.

Securing the co-operation of Azerbaijan could prove particularly tricky, although PSG believes a dispute between Turkmenistan and Azerbaijan over ownership of oil fields in the Caspian Sea should not interfere with co-operation between the two on gas. "Both the Azeris and the Turkmens are ready to de-link the pipeline issue from the oil dispute."

He said Azerbaijan could also export gas through the "open access" pipeline. An added inducement would be a sharing of facilities, such as compression and pump stations, with the proposed Baku-Ceyhan oil export pipeline.

PSG's main problem, however, will be securing a "take or pay" gas sales contract with Turkey. Although Turkey has indicated that it will pay for Turkmen gas, it has so far not signed a binding agreement that PGS and its banking advisers, CSFB, will need to raise finance.

"Bechtel and GE can't put money in the ground until a real take or pay contract is in place," says one senior executive at a leading international oil company active in the region.

A senior executive at another Caspian-oriented oil company believes the trans-Caspian project "now has a chance" of being built, given strong US political backing, although he thinks it is a case of "high politics and doubtful economics."

Oil pipeline to link Macedonia with Greek port

By Karin Hope in Athens

Penspen, the UK consultant engineers, are to carry out a technical study for a 230km oil pipeline between the northern Greek port of Thessaloniki and Skopje, capital of Macedonia.

Two Greek companies have agreed to finance construction of the pipeline as part of a $150m investment package which includes the acquisition of a majority stake in Okta, the Macedonian state-controlled oil refinery. The cost of the pipeline and storage terminals at each end is estimated at about $80m.

Hellenic Petroleum (HP), the state-controlled oil refining group, and Meton, a private Greek construction group, have set up a joint venture to build and manage the pipeline, upgrade the refinery and set up a chain of petrol stations in Macedonia. Meton will undertake construction of the pipeline and the storage terminals.

"This project has a high priority. There is no question of putting anything on hold because of the situation in Kosovo," an HP official said. Penspen is due to deliver the study in June, and construction is planned to start later this year.

The pipeline would have capacity to carry 2.5m tonnes a year of crude oil and petroleum products. Macedonia at present imports about 1m tonnes a year of oil and related products, which is shipped from Thessaloniki by rail. The pipeline would cut transport costs by more than 40 per cent and would provide security of supply to the landlocked republic.

Okta, Macedonia's only refinery, has capacity of 4m tonnes a year, but produces less than 800,000 tonnes of oil products because of low demand. The Greek joint venture is committed to investing about $70m to renovate its Soviet-era equipment.

The pipeline project would be the biggest investment to date in Macedonia, the poorest of the former Yugoslav republics. Apart from a few Greek companies making cross-border acquisitions, Macedonia has attracted little foreign direct investment because of concerns over its political stability.

As Nato's bombardment of Serbia continues, fears have grown that Macedonia, which has borders with Serbia, Kosovo and Albania, may be drawn into the conflict.

US fears on WTO entry by China

By Shilpa Mohan in Washington

US textile representatives yesterday expressed concern that their interests might suffer when talks between Washington and Beijing resume at the end of the month over China's accession to the World Trade Organisation.

In a briefing this week, Charlene Barshefsky, US trade representative, indicated that the US was prepared to give up its demand for a 10-year phase out of China's textile quotas when China joins the WTO.

On Tuesday, Ms Barshefsky was questioned by the Senate finance committee about the failure of the US to complete a WTO market access pact with China during the visit of Chinese Premier Zhu Rongji to Washington last week.

Later in the day, President Bill Clinton called Mr Zhu in New York, and the two issued a statement saying that both sides had agreed to "move intensively" to complete talks in Beijing.

During the finance committee hearing, Senator Phil Gramm, a Texas Republican, accused the administration of pushing "raw, rotten protectionism" when it tried to make China extend its textile quota for five years longer than allowed under WTO rules.

UK internet record sales venture likely

By Alice Rawsthorn

Independent record companies in the UK are considering plans to launch their own internet sales venture, to exploit the potential of the fast-growing digital music market.

The Association of Independent Music (AIM), an organisation which represents such UK independent labels as Beggars' Banquet, Creation and Gut, is in talks with software developers, media groups and internet service providers about setting up such a service.

Alison Wenham, AIM's chief executive, stressed that the venture was still "at an early stage of development".

However, she said that it was seen as a useful vehicle to help independent record labels to speed their expansion into digital music distribution.

The UK's independent record companies are formulating their online sales plan at a time when similar businesses in other consumer product sectors are also considering joining forces to sell over the internet and other digital networks.

A group of independent US booksellers recently unveiled proposals to introduce a jointly-owned retail sales site.

Such initiatives are meant to help independents stay competitive against their larger multinational rivals and powerful online retailers, notably Amazon, against the backdrop of a rapid rise in the cost of developing and launching internet sales services.

Music, like bookselling, is one of the most active product sectors in terms of the level of investment in digital distribution.

The online music market is still at an early stage of development, but is expected to show strong growth once consumers start purchasing digital versions of recordings by downloading them on to their computers.

The multinational music groups are already preparing to start digital downloading by participating in a pilot project, code-named the Madison Project, to be run by IBM in San Diego, California, this summer.

Last week, the music subsidiaries of Germany's Bertelsmann and Seagram of Canada announced proposals to launch GetMusic, a jointly-operated internet retail site. Sony of Japan and the UK's EMI Group are also in talks over online collaborations.

AIM sees its online sales venture as a way of helping independent labels to keep pace with the multinationals.

It has already registered indiemusic.com as the name of a jointly-operated internet site, from which consumers could purchase recordings, or seek links to the labels' own sites.

'Final' deadline for WTO chief slips to end of month

By Frances Williams in Geneva

Amid recriminations and frustration, World Trade Organisation members yesterday set a "final" deadline for choosing a new director-general of April 30, the last day in office for Renato Ruggiero of Italy.

As yesterday's deadline came and went, supporters of Thailand's Supachai Panitchpakdi and Mike Moore of New Zealand blamed the others' intransigence for the delay. Supporters of Mr Supachai again claimed their candidate enjoyed a commanding lead but was being blocked by the US, which favours Mr Moore.

Malaysia said its calculations suggested that 65 per cent of the organisation's 134 members supported Mr Supachai. It criticised "anonymous objections" for undermining the WTO's consensus-based procedures.

However, US officials later rejected the accusation, saying it was "neither helpful nor true". "Like every other member, we are working hard to reach a genuine consensus," an official said.

Washington has consistently denied any intention to veto Mr Supachai, Thailand's deputy prime minister and a former banker and academic.

Mr Ruggiero, 69, who insisted from the start that he would leave as planned when his four-year term expired, yesterday urged WTO members to ensure that a new director-general was in position on May 1.

"No interim solution or postponement can be justified," he said, noting that his successor would have the difficult task of preparing for the next ministerial conference in Seattle in November, which is due to launch a new trade round.

Ali Mchumo, Tanzanian chairman of the general council, said he had proposed that one or two of the three current deputy directors-general be asked to stay on for a time beyond April 30, when their terms also expire, to assist the new director-general.

In his valedictory address to WTO members, Mr Ruggiero praised the organisation's achievements since its creation in 1995. However, he said it needed to be part of a broader strategy for managing globalisation, including a new forum for world leaders from the north and south.

● WTO members yesterday agreed to set up a working party to establish membership terms for Lebanon, and granted observer status to Yemen.

هكذا من الأصل

WORKERS' RIGHTS SMALL COMPANIES ALLEGED TO BE AVOIDING LAW WHERE THERE IS LITTLE UNION REPRESENTATION

Employers evade minimum wage legislation

By Kevin Brown and Sheila Jones

Many workers who thought they would receive a pay rise when the national minimum wage was implemented on April 1 are no better off because companies are finding ways of getting round the law or cushioning the impact.

Union officials and employment experts say the minimum wage – £3.60 ($5.79) an hour for adults – is being avoided by many smaller companies, mainly where there is little or no union activity.

Some of the manoeuvring is clearly illegal. Union officials say they are planning court action against one small textile company that has altered workers' wage packets to £3.60 but still pays £3.

Other companies are allegedly using "ghost workers" paid in cash, consolidating bonuses to boost basic wages, making "arrangements" about recorded hours and imposing off-setting charges such as fees for cleaning work clothes.

Some companies have taken entirely legal actions that avoid an increase in wage costs. North West Water, part of United Utilities, has asked for the hours of contract cleaners at its head office in north-west England to be cut because it had not budgeted for the minimum wage.

The company said cleaners' hourly rates had gone up in line with the new rates, but its budget for the contracts was the same this year as in 1998.

"We asked InDepth, our cleaning contractor, to cut the hours because of that," North West Water said. "We reviewed the sites to identify areas that did not need as much cleaning and where the hours could be reduced. It will be under constant review to see if it needs to go back up again. InDepth were happy about it and apparently the cleaners were happy too."

But union officials say some InDepth cleaners have approached them for advice on whether they have grounds for a claim against their employer under the minimum wage legislation.

The GMB and T&G general unions say helplines have been swamped with calls from workers in low-wage industries.

Many have been from non-unionised workers seeking advice on whether employers' actions were legal. "They seem to be using all their imaginative powers to keep wages down," said Dave McCall, a T&G official in north-west England.

Employment lawyers say deliberate breaches can be prosecuted under the criminal law, punishable by a fine of £5,000.

Stephen Alambritis, parliamentary officer of the Federation of Small Businesses, said most small companies were observing the law, but some were finding it difficult to survive. "We would urge these businesses to speak to their bank and business advisers to find the best way forward," he said.

UK sheds image of militant industrial disputes

By Robert Taylor, Employment Editor

The UK, once regarded as a strike-prone country, is now one of the least militant in the industrialised world, according to the latest comparison of labour conflict statistics published today by the government's Office for National Statistics.

On average there were only 62 working days not worked per 1,000 employees in all UK industries and services because of disputes between 1988 and 1997. Iceland's strike statistics were the worst (479 working days not worked per 1,000 employees), followed by Spain (469 working days) and Greece (327 working days).

This contrasts with losses of 80 working days per 1,000 in Sweden; 201 working days in Italy; 253 working days in Canada and 150 working days in Australia.

Over the same period strike-day losses were less in the US (54 working days per 1,000 employees); Japan (three working days), Austria (four working days) and Switzerland (only one working day). France and Germany are not included in the 1988-1997 data because their statistics are not available for the whole period.

UK working day losses per year have fallen significantly during the 1990s. In 1997, only 10 working days were not worked per 1,000 employees, one of the smallest number of any industrialised country. They were better than figures for Denmark (41 working days), the US (38 working days), New Zealand (18 working days) and Ireland (69 working days).

The Office for National Statistics says the comparative data must be treated with some caution.

However, the general picture indicates that the strike has become increasingly rare in western industrialised societies since the 1970s.

Security problems put the brakes on the Irish goldrush

Restrictions on the use of explosives prevent a promising mine going into full production. **John Murray Brown** reports

Waiting at the gate: the entrance to the mine remains unused Kelvin Boyes

Seán Brogan has a particular interest in seeing progress in this week's Northern Ireland peace talks. His hill farm in the Sperrin mountains – in a staunchly republican area of County Tyrone, in the west of the region – is sitting on what prospectors believe is one of Europe's best small gold deposits.

Mr Brogan could be in the money already, if not for Northern Ireland's restrictions on the use of explosives that have prevented Ennex International – a minerals company based in the Dublin, capital of the Irish Republic – from bringing the mine into production.

But he is biding his time, scraping a living on his sheep farm, inherited from his father, thanks to generous European subsidies and what he earns laying concrete floors.

Precious metals in the UK are owned by the Crown and the developer pays a royalty. This might present problems in such an area. "Ah, now you're trying to talk politics with me," says Mr Brogan. "Look we've sold nothing so far. But if I get a fair price and the money is right I'll be happy."

Exploration at the Curraghinalt site, near the village of Gortin, was started in the mid-1980s. Ennex estimates the mine contains 250,000 ounces of gold at about 17 grams per tonne – high-grade ore by European standards. The gold price has dropped and it now sells at about $300 an ounce, compared with $500 when the company acquired the licence. Ennex estimates the price would have to reach $400 to make it viable.

But security concerns are the main obstacle, a reminder of the direct impact of violence on business in the region.

Ennex is reluctant to go into detail. But it appears the authorities said explosives could be kept on site only if guarded by police – and in such remote areas the police do not operate without army back-up. Ennex's concern was that its site could become a target for the Irish Republican Army simply because of the security presence.

Seán Brogan: 'Ah, now you're trying to talk politics with me'

"Our use of explosives would be different from that of a quarrying company. Mining requires a constant supply. We would be power drilling and then blasting every day for the following day's work," says David Coyle, director and company secretary.

The Sperrins form part of what geologists believe is a ring of gold-bearing minerals from Mayo in the west of Ireland to Aberdeen in Scotland. Because of the structure of the deposit – a narrow 5ft quartz vein of gold-enriched rock – the plan was to drill a tunnel into the hillside, using explosives to clear the way.

"We're a small exploration company with no revenues. We've put $8m into this mine with zero return. But if the gold price was right we could be in production in less than two years," says Mr Coyle, adding that the knock-on employment effects would be considerable. "You're looking at the guts of 60 jobs – in local crafts and transport. You have to remember that mining companies, unlike other companies, cannot choose where they want to go."

Ed Winters, a local environmentalist, explains that when planning permission was sought for a nearby open-cast mine, initially developed by Rio Tinto Zinc, it was at first opposed by all members of the local Omagh council, by Nestlé, the biggest employer in the area, and by the Foyle Fisheries Commission, which looks after fish stocks in the Sperrins watershed.

But Mr Winters worries that opposition to the Ennex plan will be more muted. He complains that a number of locals have been "sucked in" by being persuaded to buy shares in the company.

Open market to 'grey' imports, say car traders

By John Griffiths in London

Independent motor traders yesterday called for the UK car market to be opened to "grey" imports – products diverted from lower price markets to be resold in high price regions.

The traders submitted evidence to a committee of MPs to show that they can sell cars and motorcycles at up to 35 per cent less than franchised dealers and still make adequate profits.

The British Independent Motor Trade Association was appearing before a trade and industry select committee inquiry into trademark protection and competition.

Jack Glover, chairman of the association, said the government should put into place new laws it had previously proposed which would lift numerical restrictions on cheap grey car imports from outside the European Union. The new laws would allow cars in, provided they met a special vehicle approval test to ensure they could safely be used on EU roads.

Such cars, sourced mainly from Japan but including European-produced as well as Japanese brands, are currently restricted to 50 units of any one model per year. The cars, which include used models as well as new ones, are estimated to account for about 20,000 of some 100,000 cars expected to be imported this year by individuals and independent traders. Most of the other 80,000 cars are new and comprise "parallel" imports, bought from franchised dealers in other EU states.

Christopher Macgowan, chief executive of the Retail Motor Industry Federation, which also gave evidence to the committee acknowledged that the number of grey imports could leap to 500,000 a year if Dr Reid's proposals were enacted. The proposals are at the consultation stage, with a final decision expected in two to three months.

Opening up the market to grey imports would restrict the freedom of car makers and their franchised dealers to charge "rip-off" prices and, as a result, give consumers a fairer deal, said the association.

In its evidence, the federation argued that only individuals, not traders, should be allowed to import such vehicles.

But if restrictions were to be lifted, consumers should be made more aware of the cars' origins and that service and repair difficulties might arise.

ECONOMY MERRILL LYNCH REPORT SAYS 83% EXPECT IMPROVEMENT

Fund managers 'more optimistic'

By Jane Martinson, Investment Correspondent

A sharp reversal in economic sentiment has ended fears of recession among UK fund managers, according to a survey commissioned by Merrill Lynch, the US investment bank, published yesterday.

Some 83 per cent of fund managers expect the economy to improve over the next 12 months compared with just 3 per cent in September.

Trevor Greetham, global strategist at Merrill Lynch, said fund managers worldwide were more optimistic about global economies following central bank rate cuts. But the U-turn in the UK was particularly marked. "Sentiment has improved exponentially in the UK where the graph is V-shaped," he said.

He credited the reversal largely to the speed with which the Bank of England, the UK central bank, cut interest rates. "They acted much faster than most people expected," he said.

The survey was carried out this month, before the bank cut base rates for the sixth time in seven months and the European Central Bank cut its short-term rate by half a point to 2.5 per cent.

The survey of 75 big UK based institutional investors with total assets of £1,253bn ($2,017bn) follows other UK surveys showing a marked upturn in consumer confidence.

The report, conducted by Gallup, the market researcher, also found that the number of fund managers in the UK expecting corporate profits to increase over the next 12 months outnumbered those expecting them to fall for the first time since last year's stock market turmoil.

Earnings in 1999 are expected to increase by an average of 4 per cent, up from an estimated 0.8 per cent in January. Managers expect 7.1 per cent growth next year.

The rise in confidence is echoed globally in a survey that questions managers with total assets of $3,103bn. Managers in Europe, Asia and South Africa all expect inflation to rise and earnings to increase sharply.

US managers are only slightly less bullish after strong growth last year.

Managers are more bullish about commodities and emerging markets.

Fund managers expect the UK economy to grow by 1.1 per cent this year and 2 per cent next.

Some 56 per cent believed the outlook for corporate profits is favourable compared with just 22 per cent who thought it was favourable in February.

Mr Greetham said last year's turmoil after the Russian debt default had apparently been erased from the collective memory. "What a difference six months can make.

Economic optimism is now surging in Europe, the UK, Asia and Africa. 1999 may turn out to be a surprisingly strong year," he said.

ECONOMY REPORT SAYS STERLING WILL DEPRECIATE BUT NOT ENOUGH TO PREVENT MANUFACTURING RECESSION

Unemployment forecast to rise this year

By Christopher Adams, Economics Staff

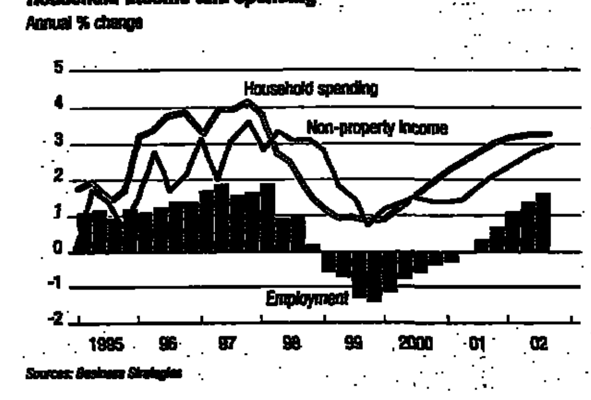
The UK economy will avoid recession this year but at significant cost to output and employment, according to a report today.

Growth will be less than that predicted by the government and unemployment will rise, according to Business Strategies, the economic consultancy. North-east England and Scotland will be hardest hit.

The continued resilience of sterling, which has eroded manufacturers' profitability by making them less competitive overseas, is unlikely to continue. But the depreciation in the pound will come too late to prevent a manufacturing recession in 1999.

Household income and spending

Annual % change



Sources: Business Strategies

Business Strategies, predicts the economy will experience growth of 0.8 per cent this year, slightly more than it has forecast previously but much less than projected output growth of 2.3 per cent in 1998.

Continued strength in parts of the service sector, and especially transport and communications, is likely to offset the drag on growth from a weak manufacturing sector. Manufacturing output is expected to contract by 2.8 per cent this year.

Increased government spending, which is expected to boost the contribution to GDP growth from government consumption to 0.6 per cent, will add to overall growth.

The forecast is more pessimistic than the Treasury's prediction that the economy will grow by 1-1.5 per cent this year. It is broadly consistent with the latest batch of independent forecasts compiled by the Treasury, published yesterday, which anticipate growth of 0.7 per cent.

The report says consumer finances are healthy, although the personal sector is likely to remain weak for some time as the labour market eases and jobs are shed.

Household debt relative to income is lower than in the late 1980s, just ahead of the last recession.

But growth in household spending and income will slow sharply.

As weak growth intensifies pressure on employers to cut costs, unemployment will rise, increasing from 1.31m to 1.57m by the end of the year. Manufacturing is expected to account for the bulk of the job losses.

The deterioration in the jobs market will take its toll on consumer confidence, which has rebounded in recent months.

Plan for 'constraint' on Scots parliament attacked

By Andrew Parker, Political Correspondent

The forthcoming administrations of Scotland, Wales and Northern Ireland will have to channel contact with other countries through the Foreign Office in London, because of UK government officials' fears the new bodies could disrupt UK diplomacy.

The Scottish National party, which is challenging Labour for control of the Scottish parliament in the May 6 election, yesterday attacked the proposal and claimed it defeated the point of the assemblies.

The new administrations will have an important role in trade promotion and attracting inward investment. The UK government will retain responsibility for international relations after the establishment of the assemblies but they were expected to be free to lobby overseas governments.

Senior officials are concerned that the administrations could unwittingly incur international treaty obligations. One London official said the Foreign Office would advise the administrations on the timing of approaches to overseas governments to ensure lobbying did not put other UK trade opportunities at risk.

"If a Scottish minister wants to press a particular country to reduce its duty on spirits, we would want that to be co-ordinated through the Foreign Office to make sure it's not cutting across representations we could be having," he said.

John Swinney, SNP deputy leader, said the plan would wrongly constrain the Scottish parliament at a time when Scots wanted to establish positive relationships with other countries.

UK ministers will lead negotiations in the European Union, giving Scottish, Welsh and Northern Irish ministers limited influence in key EU councils.

The arrangement may lead to tension between the administrations and the UK government because they are likely to have different views on issues such as agriculture and European Union aid. The SNP manifesto for the May 6 poll says it wants the UK to allow Scottish ministers to lead negotiations on EU fisheries policy.

The administrations will be consulted in advance of UK negotiations in Brussels. If there is no agreement, the two sides can meet in the planned joint ministerial committee.

NEWS DIGEST

GOVERNMENT RESEARCH BODIES

Way cleared for private sector joint ventures

Government research establishments are to be allowed to form equity joint ventures with the private sector under a scheme that ministers believe will make it easier for them to exploit intellectual property and tap overseas markets. Barbara Roche, a senior Treasury minister, said links with university research were advanced but government agencies had not been fully taking advantage of their potential.

The initiative covers about 20 public sector bodies operating on a quasi-commercial basis under the 1973 Trading Funds act. These include the Defence Evaluation and Research Agency, Ordnance Survey and the Meteorological Office. It was believed that the legislation prevented such trading funds from entering into equity joint ventures. But the Treasury has received fresh legal advice clearing the way for the formation of joint ventures under guidelines published yesterday. A number of trading funds already have plans and are awaiting the legal clarification. The Hydrographic Office wants to form an international consortium to develop mapping products and the Forensic Science Service is looking at joint ventures on reagents for testing DNA. **David Wighton, London**

SHIPBUILDING

Cunard 'superliner' planned

Cunard, the shipping line, is planning another "superliner", it was disclosed yesterday. The new vessel – which might be called the Queen Victoria – could be built by 2005, Larry Pimentel, Cunard president, said. The group has already announced plans for a similar ship to be named Queen Mary and a decision on which European yard will build it is expected this summer. Mr Pimentel announced the new project at the 30th birthday party for the QE2 at Southampton, on the English south coast, yesterday.

Tomorrow Mr Pimentel will meet John Prescott, deputy prime minister, to discuss whether the Queen Mary project vessel will sail under the British flag.

KVAERNER

Redundancy notices issued

Kvaerner Govan, the Scottish shipyard which has been put up for sale by its Anglo-Norwegian owner, yesterday issued 250 redundancy notices. The procedure will trigger consultations between Kvaerner Govan and trade unions and will enable the company to shed some staff in three months if the company wins no more work. Kvaerner Govan has about 850 workers and 350 contract employees. It expects to run out of work in about two months when contracts are completed. Kvaerner, which on Tuesday said it was selling its 13 shipyards in Europe and the US, issued 750 redundancy notices at three other yards – Mandal and Kleven, in Norway, and Viborg, in Finland.

Yesterday the four-man taskforce charged by the government with helping the company find a buyer for Kvaerner Govan, in the city of Glasgow, held its first meeting. It is headed by Sir Gavin Laird, the former trade union leader. **James Buxton, Edinburgh**

RAIL INDUSTRY

Watchdog to take tough line

Sir Alastair Morton, former chairman of Eurotunnel and new rail industry watchdog, will today signal to the rail industry that he has all the powers needed to deliver his vision of an integrated railway system. The head of the shadow Strategic Rail Authority is expected to tell a London audience that any investment plans must be co-ordinated through him. Sir Alastair will deny claims he has no teeth after the failure to find parliamentary time to give the SRA statutory powers. Sir Alastair – who has formed a strong working relationship with John Prescott, the deputy prime minister and chief transport minister – believes a combination of existing powers, influence and leverage will be enough to force the changes he wants. Sir Alastair was a critic of the fragmentation created by privatisation and is keen to build support for the regeneration of a public service. **Susanna Voyle, London**

CONTRACTS & TENDERS

REPUBLIC OF CAPE VERDE

Announcement of Privatisation By International Public Tender of State Owned Financial Sector Institutions

The Unidade de Coordenação do Projecto de Privatização e Regulação Institucional (privatization Unit) of the Republic of Cape Verde, in accordance with the Law on Privatization of the Republic of Cape Verde, Decree Law 70/98 and Resolution 74/98 of 31st December, 1998, announces the sale, by international public tender, of state owned shares in three (3) financial sectors institutions with interlocking shareholdings, according to the following criteria and terms: (i) as a financial group, or (ii) as three separate individual institutions, and/or (iii) any combination thereof.

Name	Type of Institution	Nº of State Owned Shares	Nº of Shares for this bid	% of Institution for this bid
BCA	Commercial Bank	775.000	525.000	52.50
GARANTIA	Insurance Company	96.620	91.789	45.895*
PROMOTORA	Venture Capital Company	255.000	180.000	40.00*

*The Government will contractually ensure that management control will be held by the successful bidder.

The bid package containing the *Confidential Information Memoranda* and other pertinent bid documents may be acquired at a cost of **Euro 20.000 Euros** from the privatisation Unit (UPR) at Largo do Cruzeiro - Ténis, CP No 323, Praia, Cabo Verde, telephone (238) 61 23 19, Fax (238) 61 23 34, email: cvprivatization@mail.cvtelecom.cv.

Any requests of information, questions or clarification regarding the bidding process may be addressed to the Bid Committee at the Privatisation Unit, at the above indicated address.

The bid proposals must be submitted by **16H00**, local time on Friday, **July 9, 1999**, at the office of the Privatisation Unit, Largo do Cruzeiro - Ténis, Praia Cabo Verde, in wax sealed envelopes according to the instructions contained in the Resolution nº 74/98 of December 31, 1998, published in the official gazette nº48, Serie I.

The bid proposals opening session will take place at **10H00**, local time on Monday 12th July. 1999 in the Ministry of Finance, Praia, Cabo Verde.

هكذا من الاصل

THE ARTS

CINEMA

Black comedy which breaks every taboo

Nigel Andrews on a great movie about the desperation in everyday life

HAPPINESS
Todd Solondz

8MM
Joel Schumacher

RETURN TO PARADISE
Joseph Ruben

PROMETHEUS
Tony Harrison

AN IDEAL HUSBAND
Oliver Parker


As Tolstoy almost said, all unhappy families are interesting: scene from Todd Solondz's 'Happiness'

There has never been a better film about desperation than Todd Solondz's *Happiness*. Trailing a Cannes International Critics Prize and a brief, colourful history of American media furor – the film broaches nearly every taboo sexual topic in the book – it tells us what we already knew but scarcely liked to say, even to ourselves. That a well-adjusted human being is a contradiction in terms; that happiness is an aim rather than a state; and that sex is a gigantic joke – often a dark one – played by, for and on men and women.

Take any three sisters in the world and they might be, reading from left to right, a fey, spinsterly bundle of nerves (Jane Adams), a promiscuous, supercilious achiever (novelist Lara Flynn Boyle) and a complaisant but deceived suburban wife and mother (Cynthia Stevenson). Take any three men and they might be a plump, sweaty fetishist who cold-calls strange woman (*Boogie Nights*' Philip Seymour Hoffman), a jilted, sweet-natured bachelor driven to suicide (Jon Lovitz) and a gentle-mannered psychoanalyst with a deadly secret (Dylan Baker). Take any three young boys, as Baker does, serially tiptoeing from his marriage bed shared with Stevenson, and you will be arrested.

As Tolstoy almost said, all unhappy families are interesting and all happy families are dull, or at least interchangeable. Solondz, whose first feature *Welcome To The Dollhouse*, was about the emotional crucifixions of adolescence – its tics and crosses, its acne and ecstasy – gives us a bigger, better, bolder film here and one that defies categorisation.

Is it funny? You have to laugh – everyone else in the audience is, while also partly gasping – at the bleakly outrageous shot of the dog licking a young boy's inaugural sperm off a balcony railing; at the desperate farce of Hoffman's struggle to bond with an oversize, well-meaning Mexican neighbour (who may be a murderess); or at the definitive American *cri de coeur* of Louise Lasser, playing the three sisters' mother, when her husband Ben Gazzara says he is leaving: "Now I'll have to have another fucking face-lift!"

Is it sad? Utterly. When shrink Baker gets his comeuppance after winning our horrified sympathy for his compulsion – put simply, he drugs and deflowers a schoolfriend of his son, hinting at a history of similar acts – we don't know whether to cheer for justice or weep for its victim. Hoffman is a sexual solipsist, forlorn and frantic. And what of poor misnomered Joy (Adams)? An adult education supply teacher, she cannot grow up, cannot learn and cannot supply herself (with love). After driving Lovitz to his grave, she falls for Jared Harris, a mad Russian with a madder wife.

If you can picture Robert Altman's *Short Cuts* filtered through James Thurber and Krafft-Ebing, then you have a lively imagination and it will serve you here. The mixture is nearly inconceivable, yet Solondz achieves it. His camerawork has grown up overnight. You may think there is no art in this film's gnomic portraiture, all close-ups or medium shots of people talking, sighing, thinking, despairing. But the interiors are lit like early Hockney with a pearly, teasing, Sunday-painter realism that is almost surreal. And the cutting has a quiet, sensational perfection, like secret letters sliced open with a paper knife.

If there is a better film this year – one with a more encompassing compassion about the solitude we each carry, to great or small degree, through our busy, crowded, "together" lives – we must establish a new Thanksgiving Day. If there are any better films in the next millennium, we will all want to stay alive and see it out.

★

The director Joel Schumacher should be offered early retirement, if necessary at the point of a gun. He wrecked the *Batman* series with *Batman Forever* and *Batman and Robin*. In *8MM* (opening next week) he turns a queasily compelling idea by *Seven* screenwriter Andrew Kevin Walker into a tawdry, shallow suspenser out of Friedkin's *Cruising* by way of Schrader's *Hardcore*. (Walker has gone all-but-nuclear in newspapers about the experience.)

Nicolas Cage plays the private eye investigating a rich widow's suspicion that her late consort was involved in snuff filmmaking. Wearing the armour of smug righteousness – a voyeur's best dress code – he and Schumacher penetrate the seedy dens and red-light film districts of the "other Hollywood". This Hollywood is distinguishable from the mainstream one by the fact that people kill to make rubbish rather than making it bloodlessly. (Note to the sensitive: there is no evidence that a snuff film industry actually exists at all.)

Overacting is rife. The plot is contrivance-driven. The dialogue is unspeakable, though not, alas, literally. And at the Berlin Film Festival the audience shouted "*Scheisse!*", which I considered polite restraint.

Only Joaquin Phoenix, a young actor with a squashed bug face – be startlingly shared parentage with River Phoenix – emerges with credit and does so again in *Return To Paradise*. Based on a French thriller *Force Majeure*, itself inspired by a true story, this puts drugs-charged Phoenix in a Malaysian slammer where execution will be stayed only if his vacation buddies, led by Vince *Psycho* Vaughan, return from America to face their share of the music.

Meanwhile Anne *Psycho* Heche – what is this, a Bates Motel reunion? – plays Phoenix's US lawyer who spends many a long day, or so it feels, putting the persuaders on Vaughan. The film lasts 109 minutes, sans wit or energy but with much *noir* broodiness, and makes a death sentence seem almost lenient.

★

The contrast between *An Ideal Husband* and *Prometheus*, two British films pressshown on the same day, was surely conceived by some cosmic mischief-maker. The Wilde adaptation is a fancy dress party from one of our government-franchised film companies, designed to make audiences go "Grrr! We want our lottery money back." *Prometheus* is a cine-pageant about the miners' dispute, the decline of the working class and the state of Europe, scripted in rhyming tetrameters by poet and part-time filmmaker Tony Harrison.

It lasts two hours without break and makes the brain and all parts ache. Hermes is played by Michael Feast, a silver-suited choric priest, who pokes his mitre in our face while damning the ex-master race. (That is, the Huns who gave us Belsen; not Scargill's nationwide half-nelson.) Sundry coal-men come and go, talking of Mike and Angelo, and other souls who fought the fight for mine and fire and "Got a light?", as Harrison toasts emphysema and other gifts of his redeemer. No racking cough will put him off his hymn to smoking, no "Ogghh! Ogghh!". A gold Prometheus he too hauls, with earnest quips on "golden balls". 'Nuff said: a film this Luddite, arch and ploddin' makes the Wilde seem almost modern.

At least Rupert Everett's Lord Goring knows how to deliver an epigram. With perfect lip-curl he recites the one about loving oneself being the start of a lifelong romance, though one is tempted to say – no one else in the cast being as good – that it only *seems* that long. Everett courts Minnie Driver, while Minnie's brother is Jeremy Northam MP, who loves his wife (lately BAFTA'd Cate Blanchett), though being blackmailed by Julianne Moore, wearing a red dress and sinister British accent. Oliver Parker directs without imagination and the colour photography is early Rank era. But at least the lines are good and do not rhyme.

Actresses (Ventura Pons) is a talky Spanish film about fate, chance and the theatre. Picture *All About Eve* acted by Iberians, take away the original's wit and style, and then wonder how movies like this ever cross the channel.

Rich mix of wisdom and innocence

THEATRE
ALASTAIR MACAULAY

Candide
Olivier Theatre, London SE1


Coming up trumps: Daniel Evans and Simon Russell Beale in Bernstein's flawed musical

Nigel Norrington

Leonard Bernstein's *Candide* – a cult musical that has enjoyed a chequered history and whose sheer cleverness has sometimes been a pain – comes up trumps in its new production at the National Theatre. It is directed by John Caird (*assisted*, forsooth, by Trevor Nunn) for the new NT repertory ensemble, and, as with the Nunn-Caird *Troilus and Cressida*, it has a few faults and blips. Yet all the energies of those involved carry it, entertainingly and touchingly, along its long journey, until it arrives at a rich blend of wisdom and innocence that is as rare in the theatre as it is in life.

Few musicals have ever been more ambitious than *Candide*: ambitious in spiritual and artistic terms. *Candide* re-tells Voltaire's celebrated novel, and never skimps its central satire of the philosophy of optimism. What I love in this Caird-Nunn production is that it catches not only Voltaire's satirical spirit but also Candide's own resilient innocence. The show becomes a spiritual journey, like *Peer Gynt*. And fun: what can often be a series of wiseguy jokes becomes lovable.

The production is a triumph of ensemble. John Napier's set is all eloquent simplicity: one huge O hanging at an angle above another on the floor, and the whole wide world to be discovered between them. Peter Darling, whose main experience is as an actor, has produced astonishing quantities of vivid choreography: the fact that he seems to refer to precedents in *Swan Lake* (both the traditional one and the recent Matthew Bourne version), in Ashton's *La Fille mal gardée*, and in Mark Morris's *L'Allegro, Penseroso, Moderato* is somehow perfect for this literate but large-spirited show. The large orchestra, conducted by Mark W. Dorrell, plays Bernstein's score of many colours with attention and panache.

The central axis of the show is provided by the performances of Simon Russell Beale, as both the narrator Voltaire and the philosopher Dr Pangloss, and of Daniel Evans in the title role. Once *Beale/Voltaire starts to narrate*, *Candide* begins to fly. He has authority, wit, mystery, suspense. His only fault is a tendency to archness, especially evident in pausing before the final pay-off word of a sentence. He sings extraordinarily well: musical and dramatic values both take wing, and speech and song become seamless. And every time he steps into his alternate character as the increasingly buffeted Pangloss is a little piece of bliss. Evans, by contrast, gives us the radiant naïveté of Candide: a naïveté less of surface than of heart.

Amid a large and talented cast consisting entirely of (that rare species) real singing actors, many performers make memorable impressions: Elizabeth Renihan as the maid Paquette, Simon Day as the disdainful Maximilian, Denis Quilley as the pessimist Martin, Alexander Hanson, Michael Wildman, and Chu Omambala, and Mark Umbers in several roles each. *Alex Kelly – even* though she smudges the sharper details of "Glitter and be gay" and coarsens the stage business that accompanies it, – is a Cunégonde whose artlessness and spontaneity carry important parts of the show. Beverley Klein brings her oxyacetylene vibrato and enjoyably coarse acting to the failsafe role of the Old Woman: her timing and attack pay dividends.

John Caird has assembled a new text of *Candide* that is daringly long at three and a quarter hours but richly rewarding. How many marvellous ensembles there are! And how much this tells us about the larger meaning of *Candide*. At the end of the show, we pass from one ensemble wonder, the Kings' Barcarolle, to another, "Make Our Garden Grow", as if from winter to spring.

CLOUD GATE DANCE THEATRE

Rice is rice is rice

Rice. More rice. Tons of rice – raining down on a motionless man for over an hour, piling up on the stage, half-burying another chap, flung about, glittering in the air like a fire-work display, scattered, gathered, cascading down with the density of monsoon rain, pushed about in a triumph of lethargy by someone I thought of as Joe the Sweeper. Thus the Cloud Gate Dance Theatre from Taiwan, appearing for the first time at London's Sadler's Wells in a spectacle lasting 75 minutes, *Songs of the Wanderers*. The producer/choreographer is Lin Hwai-min, and the message of this dramatic risotto is that Life is a Journey. Frankly, if it means trudging at snail's pace through this Gobi of rice-grains, I'll wait for a taxi.

The staging plays as its trump card the idea of oriental slowness of means. So characters – pilgrims on Life's Way – trail over the stage, each bearing a staff decorated with a tiny bell and all working hard on the idea of inertia as art. If the production aims for some religious significance, its mélange of Buddhist contemplation and Hinduism, against a sound-track of doleful Georgian male singing, has an unlikely air. The language is part old-fashioned modern dance, part Tai-chi, and all portentousness. Rice-coloured costumes – cunningly tattered – are by Taurus Wah. The sight of these oh-so-slow performers changing position, clambering over each other with all the merry vivacity of a sloth, is intriguing for about five minutes, after which delight gives way to stifled yawns. Bowls of fire are brought on, about which everyone seems terribly serious, but the point (other than that something might be cooking – could it be a paella?) escaped me.

There are moments when angst takes hold of the players; the women tend to swish their hair about and claw at the air; the men go in for anguished scufflings in the rice-piles. Meantime the rice goes on pouring over the immobile Buddha-figure, whose powers of concentration and stillness are the most remarkable thing about the evening. It is, ultimately, a performance having one trick to play, and – as Gertrude Stein nearly said – rice is rice is rice.

Clement Crisp

Principal sponsor is ACER.

INTERNATIONAL

Arts Guide

AMSTERDAM

DANCE
Het Muziektheater
Tel: 31-20-551 8911
● Leipzig Ballet: triple bill of works by Uwe Scholz; Apr 15, 17, 18
● Nederlands Dans Theater I: programme of works by Inger, Lightfoot, Kylián and Van Manen; Apr 20, 21

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Otello: by Verdi. Conducted by Carlo Rizzi in a staging by Klaus Michael Grüber, with a cast led by Vladimir Bogachov; Apr 16, 19

BERLIN

DANCE
Deutsche Oper
Tel: 49-30-34384-01
● Tokyo Ballet: in the German premiere of Maurice Béjart's staging of The Nutcracker; Apr 15, 16, 17, 18
● Tokyo Ballet: in a Maurice Béjart programme comprising Stravinsky's Le Sacre de Printemps and Petruschka, and Ravel's Bolero; Apr 20, 21

CHICAGO

CONCERT
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Kathleen Battle: recital by the soprano of a programme including works by Handel, Mozart and Strauss, with pianist Martin Katz; Apr 18

COPENHAGEN

EXHIBITION
Louisiana Museum of Modern Art, Humlebaek
Tel: 45-4919 0719
www.louisiana.dk
The Asian City of the '90s: display focusing on the processes of cultural, political and economic development in Asia, and on the dialogue between East and West; to Apr 21

FLORENCE

OPERA
Teatro Comunale
Tel: 39-055-211158
www.maggiofiorentino.com
The Queen of Spades: by Tchaikovsky. Conducted by Semyon Bychkov in a staging by Lev Dodin; Apr 15, 18, 21

GENEVA

DANCE
Bâtiment des Forces Motrices
Tel: 41-22-418 3000
Ballet du Grand Théâtre de Genève: La Bayadère. New staging by Etienne Frey, with designs by Gérald Poussin. With the Orchestre de la Suisse Romande conducted by Thomas Rösner; Apr 15, 16, 17, 18, 19

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
● City of London Sinfonia: conducted by Richard Hickox in works by Strauss, Haydn and Beethoven, with soprano Christine Brewer; Apr 21
● London Symphony Orchestra: conducted by Michael Tilson Thomas in works by Charles Ives, Carl Ruggles and Bruckner; Apr 15
● London Symphony Orchestra: conducted by Michael Tilson Thomas in works by Haydn, Bartók and Sibelius, with viola soloist Yuri Bashmet; Apr 18

Royal Festival Hall
Tel: 44-171-960 4242
● London Philharmonic Orchestra: conducted by Leon Botstein in works by Wagner, Khachaturian, and Dvořák; Apr 16
● London Philharmonic Orchestra: conducted by Daniel Harding in works by Brahms, Mozart, and Strauss; Apr 20
● Philharmonia Orchestra: conducted by Christian Thielemann in works by Brahms and Schumann, with piano soloist Andreas Haefliger; Apr 17

EXHIBITIONS
Royal Academy of Arts
Tel: 44-171-300 8000
● Monet in the 20th Century: arriving in London from Boston, this exhibition brings together 80 late works by the founder of Impressionism; to Apr 18
● Vasily Kandinsky: Watercolours and other Works on Paper. 140 works on paper spanning the whole of the artist's career; to Jul 4

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
Mefistofele: by Boito. Conducted by Oliver von Dohnányi in a new staging by Ian Judge; Apr 15, 17

LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion
Tel: 1-213-365 3500
www.laphil.org
Los Angeles Philharmonic: conducted by Emmanuel Krivine in works by R. Strauss, with piano soloist Martha Argerich; Apr 15, 16, 17, 18

EXHIBITION
J. Paul Getty Museum
Brassaï: The Eye of Paris. Retrospective comprising 140 works, which coincides with the 100th anniversary of the photographer's birth. Dubbed 'the eye of Paris' by Henry Miller, Brassaï celebrated the city in photographic series including 'Paris by Night'. Originated in Houston, the show will transfer to Washington; to Jul 4

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Maxim Vengerov: recital by the violinist of works by Brahms, Prokofiev, Chausson and Ravel, with pianist Leon McCawley; Apr 15
● Vienna Philharmonic Orchestra: conducted by Roger Norrington in works by Nicolai, Bellini and Bruckner, with piano soloist Friedrich Höricke; Apr 19

EXHIBITION
Haus der Kunst
Tel: 49-89-211270
Angelika Kauffman (1741-1807): retrospective of works by the Swiss decorative artist, who was a founder member of London's Royal Academy. Includes paintings, drawings, prints and porcelain; to Apr 18

NEW YORK

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
● Susannah: by Floyd. James Conlon conducts a new staging by Robert Falls, with a cast led by Renée Fleming and Samuel Ramey; Apr 16
● The Queen of Spades: by Tchaikovsky. Conducted by Valery Gergiev in a revival of Elijah Moshinsky's staging, designed by Mark Thompson. The cast is led by Plácido Domingo, Galina Gorchakova and Olga Borodina; Apr 15

New York City Opera, New York State Theater
Tel: 1-212-870 5570
www.nycopera.com
Intermezzo: by R. Strauss. New staging by Leon Major, with sets by Andrew Jackness and costumes by Martha Mann. Conducted by George Manahan; Apr 16, 18, 21

PARIS

EXHIBITION
Musée du Louvre
Tel: 33-1-4020 5151
www.louvre.fr
Le Pyramide du Louvre à 10 Ans: programme of lectures, walks, concerts and films, celebrating the pyramid's 10th anniversary; to Apr 21

OPERA
Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
www.opera-de-paris.fr
● Lohengrin: by Wagner. Conducted by Mark Elder in a staging by Robert Carsen, with designs by Paul Steinberg; Apr 19
● Lucia di Lammermoor: by Donizetti. Conducted by Bruno Campanella in a staging by Andrei Serban and Robert Carsen, with designs by William Dudley; Apr 17

SWANSEA

OPERA
Grand Theatre
Tel: 44-1792-475 715
● Welsh National Opera: Hansel and Gretel, by Humperdinck. Conducted by Wladimir Jurowski in a staging by Richard Jones; Apr 15
● Welsh National Opera: Peter Grimes, by Britten. Carlo Rizzi conducts a staging by Peter Stein, with a cast led by John Daszak; Apr 17

TOKYO

DANCE
NHK Hall
The Royal Ballet tour: Swan Lake; Apr 16, 17, 18, 19

TV AND RADIO

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13.30: *Business Asia*
19.30: *World Business Today*
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At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

COMMENT & ANALYSIS

SAMUEL BRITTAN
ECONOMIC VIEWPOINT

Budget revisited

Britain's annual Budget ritual is a spectacle wondrous to behold, but causes more confusion than it is worth

The British love sporting occasions and they also love an achievement against unnecessarily heavy odds. The annual Budget is an example of both.

My main excuse for returning to the Budget over five weeks after the event is that the House of Commons Treasury Committee has courageously issued a report. The 1999 Budget, which despite the group's Labour majority, makes some trenchant criticisms of Budget presentation.

The Budget emerges just before 5pm on a Tuesday afternoon in the form of a speech of just over an hour in length, containing a mixture of partisan rhetoric, technical announcements and all stations in between. Because of the market havoc caused by the late afternoon announcement of a change in interest rates, the European Central Bank has said that it will in future make these announcements at noon. But even such a minor improvement is too revolutionary for the British Treasury.

Some of the confusing elements are probably due to nothing more sinister than a misguided attempt by the chancellor or his advisers to keep down the length of the speech by cutting out vital explanatory phrases such as the time period for which key figures apply.

A large explanatory "Red Book" is also issued which nobody can be expected to digest in a single evening. This used to be called just "Financial Statement and Budget Report". But it is now called "Building a Stronger Economic Future for Britain".

Nevertheless, as a result of a Herculean effort, made necessary only by the nature of the ritual, papers such as the Financial Times manage to provide comprehensive coverage.

Given the circumstances, there should be a premium on conciseness in the Red Book. Unfortunately the trend has been in the other direction. Nigel Lawson's Red Book of 1987 contained 67 pages. Kenneth Clarke's Red Book for 1997 had expanded to 160 pages. Gordon Brown has added more to bring the 1999 total up to 189.

Where the present chancellor has excelled himself is in the confusing presentation of his measures. The 1987 Red Book had a one page first table in which the tax proposals were divided into headings such as Income Tax, Excise Duties, VAT, Inheritance Tax and Corporation Tax. Not very thrilling, but useful. The Conservative Budget for 1997 had already become more propagandist. Its first table contained hardly any figures but listed goals such as Lasting Prosperity, Helping People Keep More of what they Earn, High Quality Public Services. The actual Budget measures were not listed until a detailed table on page 146. But at least that table kept to the boring but useful headings such as Inland Revenue, Customs and Excise, and National Insurance Contributions.

In 1999 this table is brought forward to page 13 and for good measure repeated in identical form on page 130. But the old official type headings have given way to propagandist titles such as Raising Productivity, Increasing Employment Opportunity, Building a Fairer Society. To find out how much the upper earnings limit for employee national insurance contributions has been increased, one would have to guess that it comes under Increasing Employment Opportunity.

One can forgive quite a lot of the appalling presentation for the sake of the substance. Mr Brown has removed two obsolete and harmful reliefs – that for mortgage interest and the so-called married couples allowance. He has improved the national insurance progression to increase incentives and lower the poverty tax. He has also undertaken desirable measures of redistribution towards families with children, where much of today's poverty tends to be found, and to provide top-up benefits for those who prefer to work for modest pay rather than try to claim the dole. He has moreover made a good start on his declared aim of integrating tax and the social security into what might eventually be called a negative income tax.

There is however much to forgive. He has apparently abandoned the goal of simplification and tax neutrality to a far greater extent than is necessary to achieve the above goal. Earned income is now to be taxed at three different rates and income from savings at four, which are themselves different from the rates on earnings. There are also many weird and wonderful reliefs and allowances which are meant to improve productivity, including – if I understand it correctly – help for employers who lend bicycles to their staff to get into work.

As several witnesses to the Treasury Committee pointed out such incentives do not cost very much in total and are unlikely to do much harm or much good. But they are a reminder of Old Labour's propensity towards selective intervention. Of course market failures exist. But at the very least the government should in future adopt the suggestion of Andrew Dilnot of the Institute for Fiscal Studies (IFS) and identify which specific market failure each new intervention is meant to correct.

The Treasury Committee's first suggestion is that tables of the financial effects of successive budgets should be shown both separately and combined, and taxation and expenditure figures should be distinguished on a consistent basis. The committee has done this itself by painfully combining different tables in the Red Book. The result is reproduced here. It should end once and for all the argument about whether the 1999 Budget reduced taxation.

The combined effect of all Labour Budgets up to the 1999 one has been to increase the tax burden substantially by methods which are called "stealth taxes" by those who do not like them. The 1999 Budget merely reduced the severity of these increases. Whether you call this a reduction or not depends on which side of the House you sit.

It is difficult to see why the chancellor resists such straightforward explanations. He was previously criticised by financial purists for not increasing taxes enough and leaving too much of a burden on monetary policy. He has replied quite legitimately that he has tightened the fiscal stance by a record 3 per cent of gross domestic product.

He could now just say that he can afford to loosen the screw a bit, but not all the way. If such an admission costs Labour one seat at the next general election I would be more than astonished.

Another suggestion is that the leaflet which the chancellor intends to distribute to each household should contain an independent element provided by the national Audit office or the IFS to guarantee impartiality. I would suggest that this element should extend beyond the leaflet to the Red Book itself.

There is a further suggestion made before, which the government still ignores. This is that the chancellor should stop lumping together the cost of popular measures over three years and mixing them up with other annual items.

I would like to add one more suggestion. The original idea of a Green Budget was to present the chancellor's detailed proposals a few months beforehand so that they could be properly studied. This was proposed in 1980 by the Armstrong Committee of which I was a member. It is particularly necessary under the British system whereby what the chancellor says on Budget day normally becomes law unless there is a huge public outcry or he has committed a technical howler.

The present Pre-Budget Report is not really a Green Budget but a rather general restatement of government economic policy with a good deal of partisan pleading for good measure.

The reason why both Mr Brown and his Conservative predecessors rejected the full Armstrong idea was the fear that it would allow interest group pressures to build up and impede much reform. But this constraint is surely less important halfway through a parliament when most chancellors have already announced the more unpopular reforms which they have in mind.

So the coming autumn or winter would be the ideal time to introduce a Green Budget worthy of the name.

Financial effects of successive UK Budgets

£m	1999-2000 (non-indexed)	1999-2000 (indexed)	2000-01 (indexed)	2001-02 (indexed)
Budget 98 or earlier	3,915	3,675	4,970	7,660
Between Budgets	-90	-90	-65	-20
Budget 99	-570	-1,065	-1,385	-3,555
Total	3,255	2,520	3,520	4,085

Negative figures are decreases in revenue or increases in spending
Source: House of Commons Treasury Committee

LETTERS TO THE EDITOR

Driving home the need to manage workload sensibly

From D.J. Madan.

Sir, Very many years ago, when a batsman at cricket left a difficult ball alone, his action was often greeted with genteel applause from the spectators and exclamations like "Well left, Sir" or even "Well played, Sir!".

Part of the solution to the problem posed by Richard Tomkins in his article on time management "Old father time becomes a terror", (FT Weekend, March 20/21), and related tensions, lies in this action of the batsman, to decide what to leave, in the options that confront us every day.

Prof Parkinson was right when he said that however feeble the tasks before us, they will grow to fill the time available and, if I might add, generate the right kind of tensions.

Just as our batsman has to decide which balls to smack and which to leave alone, we need to decide an order of importance (prioritisation) and then try to perform duties within the set time frame (that is, at a good rate of productivity).

I do not believe that we are working harder than our forbears.

Perhaps, we are working harder in the field of high finance, where it has become fashionable to work late, unlike the old bankers who rarely stirred out and departed from their banks on the dot. In most other areas, in factories, in the fields, in homes, and even in offices, which account for the bulk of all work, the load has not increased, whereas leisure certainly has.

The solution lies in striking a proper balance between the needs of leisure, family and health on one hand, and duty on the other, and not allowing one to transgress on the other.

With such a balance, tensions will surely decrease.

D.J. Madan
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India

Is trade really this preferable to aid?

From Mr Robert Coleman.

Sir, If the logic of Mrs Kinnock's letter (April 12) on the European Union banana regime is correct, the Caribbean producers can start breeding sturgeon and exporting caviar to the EU.

That it costs the European consumer/taxpayer something like £12 for every £1 of support received by poor banana growers in the Caribbean does not seem to faze her.

Her argument is that any trade, *no matter how comparatively disadvantageous* and conducive to EU extravagance and corruption, is preferable to any direct aid, no matter how transparent and productive.

Robert Coleman,
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Consumers do not need one-sided protection

From Mr John Hall QC.

Sir, Ms Shelia McKechnie (Letters, April 12) knows very well that the point of my letter of April 6 was that the Ombudsman should be impartial. I did not say that consumers of financial services need no protection. What has angered Ms McKechnie is my assertion that the Financial Services Bill is biased in favour of the consumers she represents.

I agree that consumers should be protected, but they do not need, and should not be given, the extravagant and one-sided protection the bill affords.

Why, for example, should the Ombudsman's award be binding on the firm, but not on the customer? Why should the Ombudsman not be obliged to decide his cases according to law?

The bill empowers the Ombudsman to award compensation on the basis of what he considers "fair and reasonable in all the circumstances". This means that, unlike a judge, he will not be obliged to decide issues of liability or damages according to legal rules and will be able to award damages of up to £100,000 even if there has been no breach of the company's obligations. This stands the rule of law on its head and will also give rise to many practical difficulties. How will a company's legal adviser decide whether his client should fight or settle, when he cannot tell whether issues of liability and/or damages will be decided according to the law or to palm tree justice?

My opposition to these provisions is due to repugnance at the proposed setting aside of the rules of law and fairness.

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PERSONAL VIEW WILLIAM WALLACE

Meeting of minds

The US and the EU must resolve their cultural differences if they want to make any real progress on international co-operation and trade

The US and its European allies are now *militarily* committed in south-eastern Europe and about to embark on the new "Millennium Round" of trade negotiations.

Economic setbacks in East Asia and Latin America and political stalemate in Japan make transatlantic co-operation even more central to an open global economy and a stable world order. Yet the gap in mutual understanding between US policy-makers and their European counterparts is wide.

The Congressional mood on trade relations is ugly. "The embers of protectionism are clearly smouldering on Capitol Hill," Bruce *Stokes wrote in the National* Journal after the House's approval of legislation on steel quotas last month, "ready to burst into flames with the slightest downturn in America's economy."

Congressmen who attended a recent Transatlantic Policy Network conference in Italy portrayed themselves as a threatened minority of free traders, squeezed between rightwing isolationists and leftwing protectionists.

They see America's widening trade deficit with western Europe as evidence in itself of European protectionism, aggravated by the "output gap" in the German economy which – to them – follows from Germany's failure to reform its labour market and social policies towards the more efficient Anglo-Saxon model. They cite the repeated failures to open European agricultural markets, evident yet again at the March European Council in Berlin, as demonstrating an overall effort to bend the rules of world trade to European advantage. The beef hormone issue, one *remarked, "is just a ruse to* refuse our beef".

On broader economic and political issues, Washington politicians also complain that Europe is not pulling its weight. They see themselves *as "running a monetary pol*icy not just for the US but for the world" (as one Washington commentator put it) in sharp contrast to the introverted perspective of the European Central Bank: *acting as importer of last* resort to keep the world economy growing, while Europeans drag their feet even on opening their markets to eastern Europe.

European incoherence on *important issues is a con*stant irritant. US officials have pushed their European counterparts to share strategic approaches to Russia, Ukraine, Turkey, central Asia and China, but have received only muffled responses.

Part of this bill of complaint against the European *allies is justified. Failure to* agree on the agricultural reform package at Berlin was a triumph for France, at the expense both of European Union enlargement negotiations and of wider interests in the Millennium Round. In transatlantic negotiations Americans find themselves facing both the European Commission, which is responsible for traditional trade issues but not for the widening agenda of services, environmental and social policies, and EU member governments, with a different government in the presidency every six months.

Finland promises to focus on European strategy towards Russia in its forthcoming EU presidency. But its approach confirms US scepticism about parochial European governments, by defining relations with Rus*sia as part of Europe's* "northern dimension", as if Russia only had a maritime frontier on the Baltic.

But American discontent with Europe goes far beyond this. There is an alarming *mixture of resentment*, self-righteousness and plain misinformation in the Washington debate. Determination to retaliate against Fortress Europe every time the EU wavers on World Trade *Organisation rulings* is accompanied by Congressional unilateralism, often in response to domestic lobbying.

Two-thirds of the world's population is now covered *by some form of* US economic sanctions. If European governments (unwisely) pushed the Iran-Libya Sanctions Act, or US legislation on trade with Cuba, to WTO trade panels, Americans would insist that political priorities must override legal determination. Yet where European domestic *politics constrains trade* negotiations, as on beef hormones and genetically modified organisms, Washington is narrowly litigious.

Triumphalism about the American economic model is accompanied by aggressive attacks on European social capitalism, by Democrats as well as Republicans.

> **Washington's self-image of coherent and strategic foreign policy leadership is far away from European experience of disjointed demands from different Washington agencies**

With environmental issues and sustainable development *on the agenda for the Millen*nium Round, there is little understanding across the Atlantic that a European Union which has a population 40 per cent larger than the US, but crowded into a third of the space, must be more sensitive to social order, environmental preservation and even aircraft noise.

Washington's self-image of coherent and strategic foreign policy leadership is far away from European experience of disjointed demands from different Washington agencies. The US Trade Representative announced the details of sanctions against Britain in the banana dis*pute the day after* British planes had supported the US in renewed strikes on Iraq.

American relations with Europe are managed through many different channels: through Nato, through bilateral links with European states and through six-monthly EU-US summits. These last have the least political resonance in Eurosceptic Washington and the most precarious place in *policymakers' calendars*. "We have to fight for every one," an American diplomat warned a European delegation.

The White House sees Nato as its preferred framework for US-European relations, with the US as alliance leader and the European allies following *that lead. Here too, however,* there is resentment: over Europe's deficient military capabilities, evident yet again over Kosovo, and European unwillingness to accept that American leadership extends to political strategy outside Europe.

The Washington consensus is that "the United *States should* draw *Europe,* over time, much further into a global strategic partnership to help shape the international system in the new era", as a new Council on Foreign Relations report puts it. But this is assumed to be a partnership on American terms, most of all in the Middle East.

Some European officials despair of their chances of creating a more sympathetic understanding of European *interests in a political sys*tem which is driven by the desperate search for campaign finance and by the power of domestic lobbies.

Yet European governments cannot afford to allow transatlantic relations to drift apart. With a succession of summits over the next three months, with the Franco-British defence initiative edging towards a European group within Nato, with a series of difficult trade disputes under way, European heads of government should have more effective presentation of European approaches and interests to the American audience high on their agenda.

The author is professor of international relations at the London School of Economics

Soul-searching in Moscow

The Kosovo crisis has stirred up old Slavophile feelings in post-Soviet Russia. But, says **John Thornhill**, *not all Russians support the Serbs*

The anti-American feelings of one graffiti writer in Russia were abundantly clear when Nato warplanes first struck Yugoslavia. "Good Clinton = Dead Clinton," the protestor scrawled on the underside of a Moscow bridge.

Since Nato's bombing *began three weeks' ago*, Russia has been convulsed by moral outrage, national humiliation and fear as the conflict escalates. Opinion polls show that 90 per cent of Russians oppose Nato's air campaign. There are calls for sending volunteers to fight for Serbia and supplying arms to Belgrade.

This upsurge of patriotic hysteria has been milked by Russia's mainstream politicians and applauded by hardline nationalists. Even Russia's liberal politicians, who have pushed Russia to embrace western values and institutions, have been shocked by Nato's actions.

Yegor Gaidar, the liberal *former prime minister*, argues Nato's air strikes are an offensive action against a sovereign state without proper authorisation from the United Nations. He argues that few in the west realise that Nato's assault will have alarming political repercussions in Russia. It will almost certainly strengthen nationalists in the run-up to December's parliamentary elections. "There is nothing more *important for Russia and* Russian democracy than to bring hostilities to a stop," he says.

But perhaps the most alarming aspect of the reaction to the Balkans crisis is the possibility that the anti-western backlash could grow to the point where Russia turned itself into a "rogue" *state, allying itself* with Iraq, Iran, Serbia, and Libya to oppose US hegemony at every turn. Russian liberals warn that the country might not be powerful enough to restart the cold war, but it could certainly encourage the growth of a new world disorder.

For evidence of what Russia could do, consider the views of Viktor Ilyukhin, the radical Communist MP and chairman of the parliamentary security committee. He is one of many nationalists who argue that Russia has gained little from co-operating with the west and would be better off opposing it.

He argues that Russia should unilaterally lift the *international arms embargo* on Yugoslavia, supply Belgrade with anti-aircraft missiles, and target its nuclear *rockets at new Nato* countries, including Hungary, Poland, and the Czech Republic. "This is a barbarous war. A war to annihilate the economic potential of a country and to kill peaceful citizens," he says.

The strength of feeling in Russia can be partly explained by its sense of *humiliation at the loss of* superpower status. It is painful for Russians to accept that their economy has shrunk to one-fiftieth of the size of the US economy, and that Moscow can no longer control events in its own backyard.

In part, Russia's reaction may have been determined by *its foggy historical* instincts. The bombing of Russia's Serb "brothers", who share close cultural and religious ties, has revived memories of the 19th-century pan-Slav movement. Though dimmed by almost 80 years of Communist internationalism, such sentiments are again finding a modern resonance in proposals to create a union between Russia, Belarus and Yugoslavia and *ward off* "Moslem extremism".

The belligerence has also been accompanied by a great deal of muddled thinking, and the *difficult realisation* that Russia's historical loyalties now clash with its dependence on western aid. *Boris Yeltsin, the president,* has been heard to mutter about retargeting Russia's nuclear missiles at Nato countries, while continuing to press western governments to approve fresh loans from the International Monetary Fund. Russia has also sent lorries of humanitarian aid to Belgrade, while pleading *with the European Union* and Washington to step up their assistance programmes to Moscow.

But as this mixed response suggests, Russia is not a monolithic country – and for every Slavophile proclaiming brotherhood with the Serbs, there is someone else cautioning against anti-westernism. Indeed, in the past few days, some of Russia's policymakers have come to realise that the anti-western *hysteria may* have gone too far. Yevgeny Primakov, the prime minister and one of Washington's fiercest critics, has tried to rein in the extremists. He says Russia will not turn its back on eco*nomic reforms nor* revert to isolationism.

The Russian foreign ministry, meanwhile, has been reassuring western embassies that – no matter how strongly it feels about Yugoslavia – *it does not* want to break off relations or take *any military action.* Indeed, western diplomats suggest Russia now has a real opportunity to enhance its international prestige by playing a constructive role in resolving the Yugoslav conflict.

Moscow's *media, which* carried overwhelmingly pro-Serb coverage in the early stages of the conflict, has been moderating its stance. In particular, NTV, the private television channel controlled by Vladimir Gusinsky, the business tycoon, has become studiously non-partisan.

The *channel's* reporting from Kosovo's borders has highlighted the scale of the humanitarian catastrophe and contradicted the Russian foreign ministry's line that the Kosovar Albanians are simply fleeing *from Nato* bombing. "It is possible that the deep fear of being drawn into a war has forced our *journalists* to search for – and our compatriots to demand – not only simple and clear, but increasingly complex information," the Itogi news magazine concluded this week.

That remark might apply to westerners looking at Russia's own response to the Kosovo crisis. As Minitimer Shaimiev, president of the semi-autonomous republic of Tatarstan, has reminded the Kremlin, Russia is itself a multi-ethnic state with 26m Moslem citizens. Mr Shaimiev raised the frightening prospect that Russian volunteers fighting for their Serb brothers in Yugoslavia could clash with *their Moslem* compatriots intent on defending the Kosovars.

In one sense, Russia's *reaction to* the Yugoslav crisis shows how slenderly the country knows itself. Post-Soviet Russia has not yet developed a true national identity nor clarified its strategic interests. Yet in another *sense, the* debate within Moscow emphasises the degree to which Russia has already become an open and pluralistic society. Political diversity can breed confusion but also, perhaps, a greater sense of social responsibility.

One person, at least, recently saw fit to erase the anti-Clinton graffiti on that Moscow bridge.

هكذا من الاصل

COMMENT & ANALYSIS

FINANCIAL TIMES
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Thursday April 15 1999

Abuse of power in Malaysia

The outside world will rightly condemn the conviction yesterday of Anwar Ibrahim, Malaysia's former deputy prime minister, on charges of abuse of power. But, in the emotionally charged atmosphere that surrounds any such manifestation of injustice, it is important to untangle the complex legal and political issues involved if the real lessons are to be learned.

By Malaysian standards the crimes of which Mr Anwar was accused – sodomy and corruption – are serious ones. Judge Augustine Paul, who presided over the case is an honest, upright man who appears to have scrupulously met the demands of the Malaysian legal process. But what local standards deem fair, international standards will regard as a travesty.

Mr Anwar's reputation was initially smeared by the prosecution's lurid allegations of sexual misconduct to which he was not allowed to respond. The defence was not allowed to develop its case of a conspiracy against Mr Anwar.

In most developed world jurisdictions, these developments would raise serious concern. So would Mr Anwar's detention under the Internal Security Act and the appalling fact that no charges have been laid against the police chief who admits to beating him up.

Malaysia badly needs to modernise its legal process to bring it more into line with the practice of the developed world with which it wishes to rank. As countries become richer, their people set higher standards for the rule of law. A respect for due process and institutional accountability thus go hand in hand with economic development. Much as Mahathir Mohamad, the prime minister, may wish Malaysia to be the exception, he cannot ignore this general rule. Indeed this is the central message Malaysian protesters are trying to send.

The point is not that their objections automatically mean support for Mr Anwar in any political struggle. His record as finance minister was mediocre – he allowed credit to roar and then slammed on the brakes too hard – and, in a multiracial country, he draws support from the more divisive elements of Malay society.

But Mr Anwar's evident political ambition does not justify victimisation. And the political consequences are uncertain. Dr Mahathir's grip on power still appears strong, but his popularity in the country has diminished and his authority within his own party is less certain than before. The sooner elections are held, which are due within 12 months anyway, the sooner the real strength of his mandate to govern will be known.

EU cars

By opening legal proceedings against DaimlerChrysler for stopping dealers in four European Union countries supplying cars to non-residents, the European Commission has struck a modest blow in favour of consumers and the single market. But Brussels will need to get much tougher still if it is to stamp out persistent anti-competitive behaviour of the kind of which DaimlerChrysler stands accused.

For too long, European car buyers have had to tolerate wide price differentials that can only be fully explained by manufacturers' determination to restrict free trade between EU members. Brussels fined Volkswagen a record €102m last year for violating EU competition rules in that way. If DaimlerChrysler is found guilty of similar offences, it is likely to face equally severe penalties.

But Brussels' efforts to curb such abuses will be hampered, while it connives at encouraging them by continuing to exempt motor industry distribution from EU anti-trust rules. The exemption gives manufacturers unparalleled control over the retail supply of their products throughout the EU. To grant such powers and be surprised when they are abused is as naive as to hand someone a loaded gun and not expect it to be fired.

Industry arguments that the exemption benefits consumers by encouraging investment in high-quality after-sales service can no longer be taken seriously. There is little evidence that franchised dealers offer a better deal than independent garages. Indeed, Ford's recent bid for the Kwik-Fit chain of independent repair garages, which has won business away from its own dealer network, suggests the reverse.

In practice, the exemption has almost certainly bred inefficiency and high costs. In much of the EU, it has helped keep distribution fragmented and left dealers at the mercy of manufacturers' threats to cancel their franchises. Such a weak retail structure is highly vulnerable to manufacturer pressure not to supply bargain hunters from high-price markets, in defiance of EU law.

The exemption has long outlived its usefulness – if it ever had any. There is no case for renewing it when it expires in 2002. But achieving an efficient single market in cars requires more than simply scrapping this unjustified indulgence. Brussels' watchdogs will also need to enforce much more vigorously free competition in the retailing, distribution and after-sales service of cars.

That is desirable, not only for consumers, but also for European manufacturers. Sheltering them with rigged markets at home is no way to equip them to face the rigours of global competition.

Sweden wobbles

Sweden is not the first European country to face uncomfortable economic and political choices as it considers whether or not to join the euro.

Those choices were thrown into relief when Erik Asbrink resigned as finance minister earlier this week after a row with Goran Persson, the prime minister, over tax cuts. Mr Persson had enraged the prudent Mr Asbrink by suggesting that there was room to cut taxes next year, 12 months earlier than the former finance minister preferred. It was the latest unscripted policy hint by Mr Persson.

Mr Persson should now clarify his intentions. Does he really want to cut taxes soon, or does he want to maintain fiscal rigour to equip Sweden to join the euro when Stockholm is president of the European Union's Council of Ministers in 2001?

Yesterday's budget threw no light on this. Little clarification can be expected from Bosse Ringholm, the new finance minister, who will probably do the prime minister's bidding. The choice between tax cuts next year or later is finely balanced.

Mr Persson is right that Swedes should be taxed less. A tax burden of 55 per cent of gross domestic product punishes entrepreneurs when Sweden badly needs more high-growth companies to replace maturing businesses.

Yet the practical scope for tax cuts is slender, even after Sweden's progress in putting its public finances in order. Yesterday's budget forecasts a 1.8 per cent surplus on public finances this year, a notable improvement from the 12 per cent at which the deficit peaked in 1993 and a factor in the country's low interest rates and lack of inflation.

But outstanding gross government debt stands at nearly 68 per cent of GDP, too high to sustain that surplus and well above the limit for entry into European economic and monetary union. Mr Asbrink was right to argue that more of that debt should be paid off before the government can make significant tax cuts.

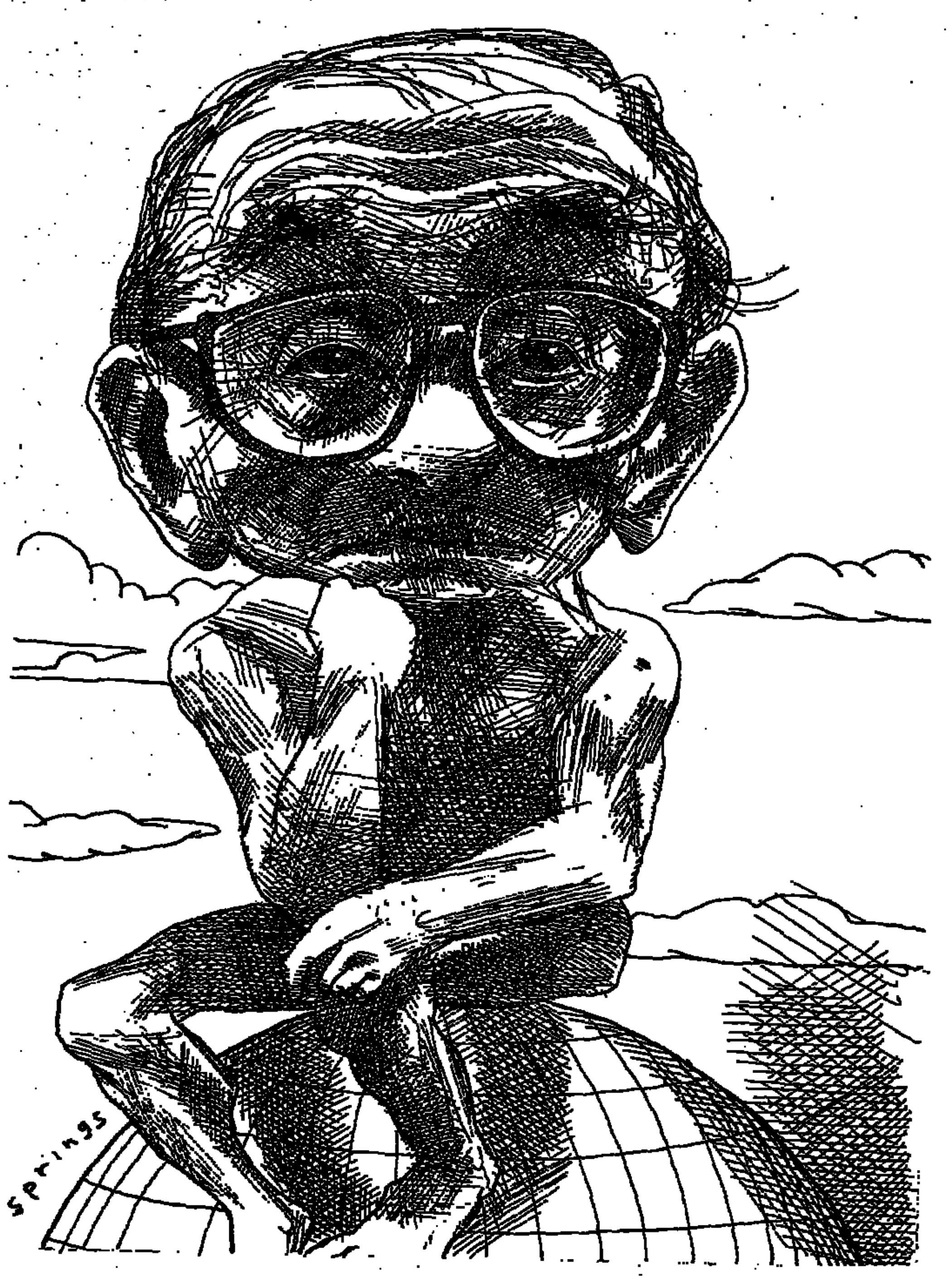
There is scope for tax cuts in the next year, but they should be modest. Good targets for demolition are the wealth tax – an annual charge on personal assets – and double taxation of dividends, both of which are partly to blame for the exodus of business talent.

These could be cut without harming the Swedish government's ability to pay down its debts. But that assumes Mr Persson does not go soft on structural reform. His past record suggests he should have the mettle to keep up the pressure. As finance minister in the mid-1990s, he imposed the spending cuts and tax rises which eradicated the budget deficit.

It was careless of Mr Persson to lose a finance minister. It would be uncharacteristically reckless to give up on fiscal rigour.

Re-think at the Fed

Greenspan is adjusting his policies in a world where inflation seems dead, says **Gerard Baker**



Behind the unblinking facade of the US Federal Reserve's headquarters in Washington they are cleaning house. From top to bottom of the venerable institution, shelf-loads of tools and measures of monetary policy are being dusted down, reconditioned or even cast aside.

The Nairu, a faithful appliance that has monitored monetary policy since the 1970s, is being consigned to storage. The Expectations-Augmented Phillips Curve, an attractive, if baroque, piece of economic furniture, is deemed no longer safe for policymakers' use. Even that family jewel, the Taylor Rule, is getting some long, hard looks from the repairers.

This is because some of these tools indicate that the US economy – after a prolonged expansion – should be dangerously close to overheating. They suggest that Alan Greenspan, chairman of the Fed, should be tightening monetary policy to avoid an outbreak of inflation.

Inflation remains firmly under control even as the economy expands. And the men and women of the Fed responsible for monitoring it and keeping it on a sustainable track are acknowledging that their traditional methods may no longer work.

The search is now on for analytical tools that might work better. So far, officials have not abandoned tried-and-tested formulas for interpreting the economy's signals. But a far-reaching intellectual inquiry is under way into the basis of monetary policy decision-making.

"I don't think we really have a lot of clues," Alice Rivlin, the vice-chair of the US central bank, said in an interview last week. "The macro-statistics may not be all that much help. People who want to understand this may need to pay a lot more attention to what is really going on in businesses and labour markets."

In its unprecedented growth spurt over the past three years, the US economy has broken several rules: first, history says sustained growth above the economy's long-term trend will inevitably end in higher inflation.

For three years, the US has grown at an annual rate of just under 4 per cent – 1.5 percentage points above the long-term trend. Yet the main measure of overall inflation, the gross domestic product price deflator, has fallen steadily – to an annual rate of 0.8 per cent in the last three months of 1998, its lowest in more than 29 years.

Second, theory suggests that a fall in unemployment below a certain level will lead to a spiral of accelerating wage and price inflation as demand for workers forces employers to pay higher wages, without a corresponding increase in output.

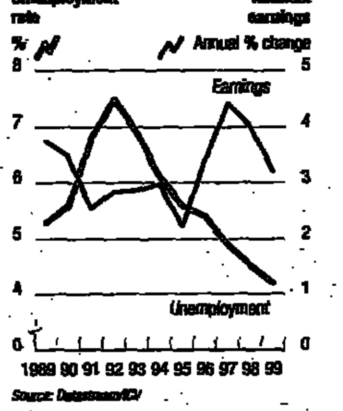
In the past few months, the unemployment rate has fallen to 4.2 per cent, its lowest level in 30 years and well below what even the most sceptical economists regard as the lowest rate consistent with stable inflation. Yet average annual earnings growth has been little changed in the past year and is now just 3.6 per cent; consumer price inflation is 1.7 per cent per year, half what it was three years ago.

Third, experience indicates that low unemployment leads also to declining productivity, or output per hour. As employers hunt for workers in increasingly tight labour markets, the quality of the people they are able to hire diminishes.

But even as unemployment has declined, the rate of productivity growth has doubled in the past two years, from its sluggish rate in the early 1990s, to over 2 per cent now.

Outside the Fed, some analysts have used these events as evidence that the US economy has entered a "new paradigm" – a fundamental positive shift in conditions in the past few years that will enable it permanently to grow faster than its historical trend.

Not even the most optimistic of the policymakers on the Fed's Open Market committee, which sets short-term interest rates – admit to being converts to the new paradigm. Nor is anyone quite ready to cast aside completely the traditional policy tools.



Source: Datastream/ICV

This may be partly because even policymakers who sympathise with the notion that something fundamental has changed would not dare say it in public.

The Fed's pronouncements are so closely scrutinised that any admission would be seized upon by the markets, with unpredictable results.

But officials also appear to be genuinely undecided about what is happening. Even some of the more sceptical policymakers confess to bafflement at the apparent breakdown in traditional rules. They admit to waning confidence in the view that the strong performance is all down to a number of "lucky breaks" – such as falling global commodity prices or declining healthcare costs.

As a result, the Fed has resisted pulling the interest-rate trigger for most of the past two years, even as inflation warning lights have been flashing. Officials are at least prepared to allow the possibility that something radical might have changed.

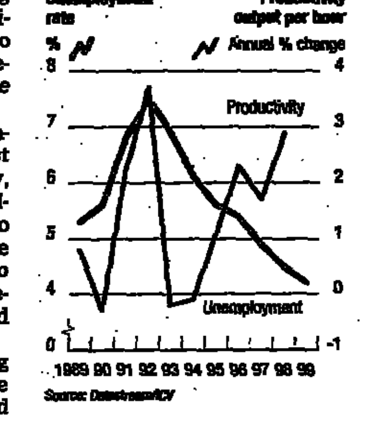
"This will perhaps be remembered as Greenspan's greatest strength", says Richard Medley, of Medley Global Advisers, a policy consulting company, who studies the Fed closely. "Here he is, a 72-year-old man who remains completely open to re-thinking the way the world works."

One reason for this re-thinking is an unusual divergence between conditions in labour and product markets. Labour markets have grown tighter in the past few years, reducing excess capacity in the form of workers looking for jobs.

Yet productive capacity use has actually fallen. Industrial capacity utilisation – at around 80 per cent – is now down to near recession levels.

In other words, while employers will have difficulty in drawing down much further from the remaining pool of unemployed labour, it is equally clear that they could in principle expand output without experiencing potentially inflationary production bottlenecks.

The critical aspect of this phenomenon is that it goes some way towards explaining why productivity might have improved significantly in the past few years.



Source: Datastream/ICV

Big investments – especially in information technology-related equipment – have raised the output per hour produced by each worker.

This improvement is a key factor in the benign inflationary environment. Higher productivity enables companies – and the economy as a whole – to produce more without raising prices.

In addition to this phenomenon, some economists argue that US companies have changed their behaviour in response to the intensification of global competition in recent years.

Because of fierce pressure at home and abroad, companies are increasingly unable to raise prices for fear of losing market share. Instead, they have had to find different ways of dealing with the cost pressures they face.

Ms Rivlin last week offered one possible explanation that links these two phenomena. She argued that increased global competition to hold down prices may have induced a radical change in companies' behaviour.

Instead of pushing up wage inflation, tight labour markets may actually have reduced it by encouraging companies to invest more in plant and technology and in the training of their workers. That may have raised productivity, and held inflationary pressures in check.

Ms Rivlin emphasised that this was merely a possibility, not a confirmed fact, and some other Fed insiders are sceptical. But there does seem to be a growing belief among policymakers that something quite important – the potential of the US economy for achieving sustained productivity growth – has changed.

As Robert Parry, the head of the San Francisco branch of the Fed said last week, the evidence is more persuasive than ever that an upward shift in output per hour has occurred in the past three years. Many economists doubted the reliability of the productivity figures, but the improvement now seems to be so marked that attempts to explain away the change now seem less convincing.

You do not have to be a believer in some dramatic "paradigm shift", say some senior Fed officials, to believe this change could be important. It may be that productivity improvements have raised overall growth potential by some relatively small amount – say by half a percentage point per year.

If that is what is happening, then it suggests a possible alternative to the new paradigm. The new paradigm implies that the US is moving from the old world of hard choices and policy tradeoffs to an nirvana of inflation-free growth.

Under the alternative view, the old rules may not work for now. But this nirvana will prove simply to be a transition, and the US economy will eventually face settle down at a new period in which it will again face trade-offs between price stability and growth.

In other words, the economy will not go on for ever, functioning as benignly as it has done in the past three years. At some point the old rules will reassert themselves, but simply at a slightly higher rate of growth.

That implies that Fed officials should not throw away all the old analytical appliances just yet. They may need to be tweaked and adjusted to reflect the way the world has changed. But eventually, their day will come again.

OBSERVER

Star turn in Delhi

She's awarded herself a doctorate, likes to be called "revolutionary leader" and is giving India's shaky government the fright of its life.

But Jayaram Jayalalitha, the former Tamil movie goddess who yesterday deprived the ruling coalition of her party's support, isn't exactly dour or doctrinaire.

She once splashed out $30m on her foster son's wedding, a get-together so lavish that it made lights go out throughout Madras. This week she took 48 suitcases to her Delhi hotel.

Jayalalitha first popped up in the 1960s as a sex sirenette in Tamil-language movies, and soon became mistress to screen legend MG Ramachandran.

On his death, Jayalalitha fought her way to lead the Tamil party he founded.

She's since carved a niche for herself as one of India's most wilful, unpredictable and controversial leaders. As chief minister of the southern state Tamil Nadu in the early 1990s she gained notoriety with government contracts which ended up with litigation – but also won respect for her enlightened health policy.

Jayalalitha doesn't make everyone feel better though. Her auditor says she put him in hospital by setting about him with sticks and a pair of high-heeled shoes, though she denies any wrongdoing.

And if the country's already battered government has any sense, it'll tread carefully when she's about.

Culture clash

While Deutsche Bank is busy importuning American regulators to let its takeover of Bankers Trust go ahead, the object of its affections has problems of its own.

A new low's been reached with an internal e-mail that seeks to explain nearly all things German to BT's Baltimore and New York employees.

The product of much head-scratching over how to make the banks' marriage work, "Doing Business in Germany", tells staff to avoid all the high-fiving and back-slapping that comes naturally to New York financiers. "Germany is a low contact culture," it intones.

BT staff are also instructed to "expect little positive reinforcement" from German bosses. "If you get no feedback at all, this is a sign that you are doing everything right," it explains. Be warned too when trying to curry favour: if visiting the family home, don't bring cheap wine or chrysanthemums – they're only suitable for funerals.

And remember that, in what may be a novel approach for BT staff, "before agreeing to proceed Germans often expect business proposals to have been worked out fully."

The memo stops short of repeating John Cleese's Fawlty Towers mantra of "don't mention the war", though it can't much help an already troubled deal.

But as it handily explains, if the takeover did fail, it wouldn't overwhelm Deutsche's staff.

Americans' upbeat attitude often comes across as naiveté. "For Germans, a sense of impending catastrophe is nothing unusual."

Run for it

Renato Ruggiero, who's on his way out as head of the World Trade Organisation, has hit on the perfect way to squash hopes that he'll stay on.

Though the WTO's still deadlocked over his replacement, the 69 year-old Ruggiero's booked himself and his wife a New York bound trip aboard the QE2 in mid May. He plans to bolt Geneva for the isle of Capri on April 30.

He also warns that no less than three books, drawing on 50 years of experience as diplomat, Eurocrat and trade supremo, will soon be on their way.

Ruggiero, who handed in his notice over a year ago, may have seen his firmness pay off. Yesterday the WTO council vowed it would "definitely" have a decision by April's end. All the same, Observer can't help wondering whether his tickets are refundable.

Don Lucio

Throw away the flow-charts. Junk the textbooks on endogenous growth. Lucio Tan, the tycoon behind ailing carrier Philippine Airlines, has an idea for revving up the islands' economy – and it's thankfully low on theory.

Tan reckons that the place needs a mafia for business to get buzzing again, just as human bodies need bacteria to function.

But Tan, once a pal of Ferdinand Marcos, the former dictator whose wife did so much for the shoe industry, draws some limits. He doesn't want Russian-style mayhem, but prefers a "guided mafia" operating in tandem with the government. At least it'd help the market for horses' heads.

Sun shine

North Korea, the nation that trades nuclear technology for potatoes, is in festive mood.

Sun's day, birthday of late leader Kim Il Sung, was a week ago, but celebrations continue.

As the North Korean news agency reminds us, "rays of President Kim Il Sung, the sun, will illuminate the road for humankind forever".

And, don't rush – Kim's biography is finally out. Volume 58, that is.

The Financial Times

100 years ago

Happy Stock Exchange
The annual report of the managers of the Stock Exchange, besides making the proprietors feel that their money is embarked in a remunerative investment, must raise a feeling of envy and jealousy in the breasts of those who, being mere members of "the public," are unable to take advantage of so excellent a security.

Even a proprietor of the Stock Exchange is restricted to 200 shares, £12 being paid up on each. Still, a dividend of £8 per annum per share, as was recommended in the report, represents a tidy income to each person with the full amount.

Bill for accountants
For some years past there has been a very natural desire among the general body of accountants to secure for their profession a measure of definite legal recognition which should place them on an equality with lawyers, doctors and others whose status has been made the subject of extremely careful deliberation and strict regulation.

The Society of Accountants and Auditors has prepared a Bill which, in its opinion, will provide adequate machinery for the registration of accountants.

FINANCIAL TIMES
THURSDAY APRIL 15 1999

THE LEX COLUMN

Broken line

Three months on, the battle for AirTouch has produced its first casualty. Bell Atlantic has announced it will dissolve PrimeCo, its mobile telephone joint venture with AirTouch, as soon as the latter completes its merger with Vodafone. This is not entirely unexpected. After all, Bell lost out to the UK cellular operator in January's $60bn bidding war for AirTouch.

At the time, all sides professed continued enthusiasm for PrimeCo, which covers 41m people in the middle of the US, filling the hole between AirTouch's west coast presence and Bell's east coast franchise. AirTouch could buy out Bell's stake in PrimeCo but the move still has the effect of depriving both companies of a national wireless footprint when AT&T and Sprint are making hay with country-wide cellular coverage and one-rate tariff plans.

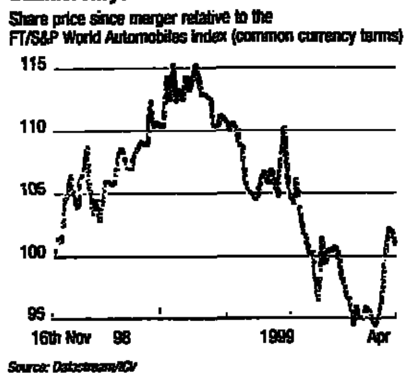
For Bell, however, other considerations are more important. PrimeCo's strict non-compete agreements potentially threaten its proposed merger with GTE, another big phone company, whose substantial cellular assets overlap with AirTouch and PrimeCo. Assuming that merger goes ahead, Bell will still have a substantial US footprint. Vodafone AirTouch, by contrast, will have at the very least to build its east coast presence piecemeal, either by buying small operators like Omnipoint or picking up left-over mobile licenses. This will take time and money the group would probably rather spend internationally.

DaimlerChrysler

Shareholders in DaimlerChrysler are right not to overreact to yesterday's threat of legal action from the European Commission over allegations of anticompetitive behaviour. The carmaker is charged with ordering dealers in four countries not to sell cars to non-residents, breaching the "block exemption" rules governing relationships between carmakers and distributors. Although the Commission is talking tough, in this case its bark is probably worse than its bite.

While technically it could fine Daimler 10 per cent of its worldwide sales if a breach is proved, any actual penalty is likely to be far lower. The last time the Commission fined a carmaker for breaking the rules – Volkswagen in 1998 – the penalty was just 0.4 per cent of turnover. And VW's was an open and shut case, while Daimler's looks less clear cut. Daimler could also argue any fine should apply only to the €33bn of sales generated last year by the car activities of the old Daimler-Benz. This would imply a top whack risk of €3bn, but a more realistic outcome of about €130m – just 2 per cent of Daimler's expected net profits this year.

DaimlerChrysler
Share price since merger relative to the FT/S&P World Automobiles index (common currency terms)



Source: Datastream/ICV

This raises another question: whether the Commission is discharging its duty to protect consumers if toothless fines like this are the best it can do. The truth is the block exemption rules, which protect carmakers from the rigour of EU anti-trust law, are still helping to preserve substantial car price differentials in the single market. They should go.

Olivetti/Telecom Italia

If you cannot beat them, join them. That is the thought behind the latest scheme doing the rounds about how Telecom Italia could ward off Olivetti's hostile bid. Its original defence plan is in tatters following its failure to secure a quorum at last weekend's shareholders' meeting. So why not, as some suggest, adopt a me-too strategy: arrange for a friendly shell company to launch a highly leveraged bid for Telecom?

The notion has some appeal. In particular, shareholders would receive a large dollop of cash. There would then be a simple choice over which manager investors prefer: Olivetti's Roberto Colaninno or Telecom's Franco Bernabe. However, the big problem with this idea is it would involve a monumental U-turn. Telecom would have to assume a mountain of debt, something Mr Bernabe has in the past argued was a weakness in Olivetti's bid. The company would also no longer have funds to integrate its mobile subsidiary. Mr Bernabe's plan for a unified capital structure would have to be abandoned too.

If this copy-cat approach was the only one available, it might be sensible for Telecom to adopt it. But it is still unclear whether the failure to secure a quorum really indicates that shareholders are backing Olivetti or just keeping their options open. To retain its independence, Telecom needs to do more than sit on its hands. But it will be disappointing if the best Mr Bernabe can do is eat his words.

Takeovers

Should bidders be allowed to include, as a condition of their offer, that there be no changes to the board of their target? The issue is pertinent. The Takeover Panel is pondering whether Michael Ashcroft can utilise just such a condition to fold his bid for Corporate Services Group. From a corporate governance perspective it is clear why such a condition might be undesirable. After all it is up to shareholders to decide on the composition of their board. In a bid situation especially, they may feel they need to strengthen the board to get the best price for the company. It is not for a bidder to choose who to negotiate with. That said, shareholders can simply ignore such a condition, as a majority of CSG's have done, by pressing for the removal of some directors.

Furthermore, such a condition is not in itself that dangerous. Its existence alone does not allow a bidder to invoke it and let his bid lapse. For that to happen, the Takeover Panel has to judge the matter to be of "material significance" to the bidder. Where the panel will come down in the case of CSG is still unclear. It may decide that the resignation of Jeffrey Fowler as CSG chairman does not actually warrant Mr Ashcroft lapsing his offer. That would be ironic since neither Mr Ashcroft nor a number of CSG's shareholders seem that keen on the bid – at least in its current shape.

AMERICANS HINT THEY MAY SET UP RIVAL SYSTEM IF AGREEMENT IS NOT REACHED

US rejects plan for world accounting standards body

By Jim Kelly in London

The Financial Accounting Standards Board of the US has formally rejected a blueprint for a body that would set a single reporting code for multi-national companies wanting to list on the world's leading stock markets.

Ed Jenkins, chairman, said proposals by the International Accounting Standards Committee did not go far enough "in creating a high-quality, independent standard setter that would be acceptable worldwide".

The board's statement implies that if a series of specific improvements to the plan, which would make it closely resemble the FASB, are not agreed then it might set up a rival body that it would hope to see become a world accounting standards board.

The FASB's response raises the spectre of a dual system in world financial reporting.

The European Commission is a strong supporter of the IASC, as are several big economies. But the FASB believes some could be tempted to back a rival. Supporters of the IASC will see the move as a gambit. They hope that pressure from the G7 countries for rapid progress in building a single global financial reporting system to safeguard investors will bring the two sides together.

The International Organisation of Securities Commissions, the club of world stock market regulators, is reviewing a set of core standards produced by the IASC for use on leading stock markets.

But the debate on the future structure of the IASC has overshadowed its work.

Sir Bryan Carsberg, secretary-general of the IASC, said the FASB's view was not "unanimous in the US" and underestimated the fine balance that had been drawn up in the proposals to reform the IASC.

"We have got to do a lot of talking to narrow the gaps," he said. He agreed that negotiations had reached a "crunch" and that politics had complicated the talks. "It is a pity people have to engage in a sort of power struggle."

Sir Bryan, a former UK director-general of fair trading, added that the FASB's response raised the possibility that the European Union might require US companies to follow IASC rules when listing on European stock markets.

The IASC has won the specific encouragement of the G7's finance ministers. Sir Bryan has also worked to accommodate growing interest in harmonisation within the single European market and the role of the European Commission.

The FASB has consistently attacked the IASC for what it sees as its lack of independence, disclosure, and due process and poor record in enforcing compliance.

The IASC hopes an acceptable compromise can be hammered out by the summer.

If the IASC succeeds in getting agreement for the use of its standard, companies would be able to use a single set of accounts to list anywhere in the world to raise capital.

Accountancy Column,
www.ft.com/hippocampus/dman.htm

Indian PM to face confidence vote after losing coalition ally

By Mark Nicholson in New Delhi

India's president yesterday told the government of Atal Behari Vajpayee to seek a confidence vote in parliament after a key ally pulled out of the ruling coalition.

President K.R. Narayanan gave no deadline for the confidence vote – the most serious threat to the Bharatiya Janata Party government since it came to power last year.

Indian television reported last night that the government had agreed to face a vote at the opening of parliament today.

Congress, parliament's second biggest party, claimed that the loss of 18 MPs from the Tamil Nadu-based AIADMK party had reduced the BJP coalition to a minority in the 543-seat parliament, giving it "no moral, constitutional and political right to continue in office".

The sentiment was echoed by other opposition groups. Analysts said last night they believed the BJP was 15 seats short of a majority in the lower house.

BJP leaders insisted they could rally a majority in the lower house in spite of the withdrawal of the AIADMK, led by controversial former movie star J. Jayalalitha.

"It is not a minority. You will see it in the house," said Venkaiah Naidu, BJP spokesman. He declined to explain where it would find support to offset the loss of its ally.

"The shortfall will be made up," Mr Vajpayee said.

If the government falls, it will be the fourth Indian administration to collapse in three years. That would raise the possibility of new elections in little over a year, casting a pall of political uncertainty over its economy, which has shown signs of recovery in recent months.

Business leaders expressed disappointment at the latest political crisis. "In the last four years we've seen uncertainty after uncertainty and only in the last four months some signs of stability," said Rajesh Shah, president of the Confederation of Indian Industry. "If we are to go through a period of limbo, it won't be good for the country."

The stock market has declined by more than 7 per cent since the crisis came to a head late last week. Brokers said they were bracing for further falls today. The market was closed for a holiday yesterday.

India's latest political squall may threaten passage of the country's budget, presented in February and due for parliamentary approval this month, and other vital economic bills, including an insurance bill.

The crisis could set back modest progress in Delhi's talks with Pakistan and the US.

The fractured nature of India's parliament, where there are almost 40 parties with fewer than 20 members, makes it almost impossible to call the result of a confidence vote.

Pakistan missile test, Page 6

CONTENTS

The Flying Scotsman – pictured here in 1990 – is returning to Britain's railway tracks after a three-year restoration programme. From July, the famous steam locomotive will begin regular charter services. Picture: PA

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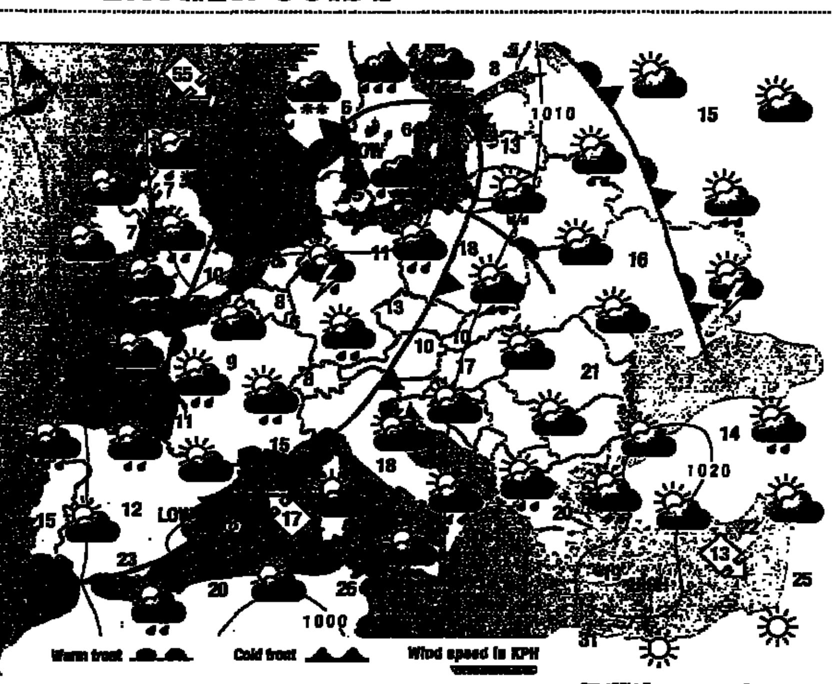
FT WEATHER GUIDE

Europe today

Much of Scandinavia will have showers, with sleet and snow in the north. South-western France will be dry and sunny. There will be showers across central Europe from north-west France to the Baltic states. Northern and eastern Spain will have showers, but central and southern Spain should stay dry and bright. Portugal will be sunny and dry. The Mediterranean coast of Italy and the area round Venice will have showers. Elsewhere in Italy, it will be dry and sunny. Greece will be mainly dry and sunny.

Five-day forecast

It will stay unsettled. However, by the weekend, the British Isles and northern Europe will become drier and brighter. Showers will develop over the western and central Mediterranean by next week, bringing snow from the Pyrenees to the Dolomites.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES (Maximum Celsius)

Abu Dhabi	Sun	31
Accra	Thunder	32
Algiers	Fair	22
Amsterdam	Thunder	8
Athens	Sun	20
Atlanta	Thunder	26
B. Aires	Thunder	19
B.ham	Shower	8
Bangkok	Thunder	34
Barcelona	Rain	15
Beijing	Sun	21
Belfast	Hail	7
Belgrade	Sun	23
Berlin	Shower	11
Bermuda	Shower	21
Bogota	Shower	19
Bombay	Sun	32
Brussels	Thunder	8
Budapest	Fair	19
C.hagen	Rain	5
Cairo	Sun	30
Caracas	Sun	29
Cardiff	Hail	8
Casablanca	Cloudy	18
Chicago	Rain	11
Cologne	Thunder	9
Dakar	Fair	24
Dallas	Sun	18
Delhi	Sun	37
Dubai	Sun	34
Dublin	Fair	7
Dubrovnik	Sun	19
Edinburgh	Shower	7
Faro	Sun	18
Frankfurt	Shower	8
Geneva	Rain	8
Gibraltar	Fair	21
Glasgow	Hail	7
Hamburg	Rain	6
Helsinki	Shower	8
Hong Kong	Shower	26
Honolulu	Sun	28
Istanbul	Sun	18
Jakarta	Thunder	32
Jersey	Fair	9
Johannesburg	Fair	25
Karachi	Sun	35
Kuwait	Sun	35
L. Angeles	Sun	20
Las Palmas	Fair	21
Lima	Fair	25
Lisbon	Fair	15
London	Thunder	10
Lux.bourg	Hail	6
Lyon	Shower	8
Madeira	Fair	18
Madrid	Fair	12
Majorca	Shower	18
Malta	Fair	23
Manchester	Shower	7
Manila	Fair	34
Melbourne	Fair	20
Mexico City	Sun	30
Miami	Sun	29
Milan	Rain	15
Montreal	Sun	8
Moscow	Fair	15
Munich	Rain	7
Nairobi	Thunder	27
Naples	Shower	19
Nassau	Fair	29
New York	Sun	18
Nice	Shower	15
Nicosia	Sun	22
Oslo	Shower	6
Paris	Shower	9
Perth	Fair	34
Prague	Shower	13
Rangoon	Thunder	34
Reykjavik	Snow	4
Rio	Fair	30
Rome	Shower	18
S. Frsco	Sun	26
Seoul	Fair	18
Singapore	Thunder	33
Stockholm	Shower	6
Strasbourg	Shower	8
Sydney	Shower	22
Tangier	Fair	17
Tel Aviv	Sun	25
Tokyo	Sun	18
Toronto	Fair	12
Vancouver	Fair	20
Venice	Shower	13
Vienna	Fair	10
Warsaw	Shower	18
Washington	Fair	18
Wellington	Shower	17
Winnipeg	Cloudy	4
Zurich	Rain	6

هكذا من الأصل

FINANCIAL TIMES SURVEY

ENERGY

THURSDAY APRIL 15 1999

Regular series: next issue June 9 1999

Saudi diplomats lead first-aid effort

Price pressures are exhausting oil company chief executives around the globe. Production caps have eased the situation in the short term but, says Robert Corzine, a relapse is still possible

Volatility has long been a watchword for the international petroleum industry. But the extreme swings in sentiment that have affected the sector over the first three months of this year have rarely been seen in such a short period.

In January and early February the gloom that had settled over world oil markets for much of last year seemed impenetrable. Oil executives spoke bleakly of prices having "entered a new paradigm", the buzz phrase for a possibly prolonged period of oil price deflation.

The World Bank detected "evidence of a fundamental break in the level of commodity prices, due to rapid advances in technology and declining costs of production".

The gloom deepened as the western world's biggest integrated oil companies began reporting sharp slides in profits, deep cuts in capital spending and large-scale redundancies. Many projects that had not been marginalised by low crude prices were delayed.

In many oil-producing countries national budgets came under renewed pressure. There were warnings of possible civil unrest in the most vulnerable countries if prices stayed depressed. The only bright spot was the strong performance of the US economy, the world's biggest petroleum market. But even its buoyant economic growth failed to offset the collapse in oil demand in Asia and elsewhere.

As the weeks passed and oil prices showed no signs of improving, fears grew that they could plunge even further as members of the Organisation of Petroleum Exporting Countries continued to squabble over production cuts agreed last year.

"Earlier this year we were in imminent danger of a global price war that would have had terrible consequences for our [Opec] countries," says Ali Rodriguez, the Venezuelan oil minister. "It could even have been worse than many belligerent wars."

Intense diplomacy by Saudi Arabia, the world's biggest oil producer and exporter, helped bring the oil world back from the brink. The elation with which oil producing countries and companies welcomed the agreement in the Hague in March that paved the way for a new round of global production cuts was more than understandable.

But are the sighs of relief being heard in oil ministries and corporate boardrooms worldwide warranted? Has the market really turned? And what are some of the lessons of the oil price collapse?

Last week the International Energy Agency, the Paris-based organisation that monitors world oil markets on behalf of the industrialised countries, said it believed the latest round of oil production cuts by leading exporters "... would lead to significant stock drawdowns over the remaining three quarters of this year," assuming that the agreement was honoured.

On that point, the IEA said "...serious implementation appears to have already begun". The agency added that the quality of the high-level political commitments supporting the Hague agreement gives it a credibility that was absent from last year's effort by Opec and non-Opec producers to prop up prices.

Although the cuts – aimed at eliminating the global supply overhang that was one of the main causes of last year's price collapse – were only implemented from April 1, the shift in market sentiment in recent weeks has been pronounced. In the four weeks to April 8 the price of the bellwether two-month forward Brent futures contract rose more than 20 per cent on London's International Petroleum Exchange.

But the euphoria is tinged with caution. The latest rally was only able to lift the average price of two-month forward Brent to $11.96 a barrel for the year to April 8, well below last year's average of $13.67.

Longer-term oil futures prices also show that the markets are cautious about how far the present recovery will go. On April 8 the price of the Brent futures contract for April 2000 was just $13.94, well below the $18-$20 a barrel range that more than a few Opec oil ministers hoped to achieve through their latest cuts.

Given the dynamic nature of oil markets and the myriad factors that affect them, their hopes may yet be realised. But not all Opec states are hoping for sharp price increases. Mr Rodriguez, Venezuela's oil minister, believes it is time for the exporters' group to begin thinking about price ceilings, as well as price floors, as a way to contain price volatility: "Some optimists talk about oil hitting $21 a barrel, but that may bring us back to over-production. That's why we need a ceiling," he says.

Relief, tempered with caution, also marks the response of the corporate sector to the recent price recovery.

Few companies are expected to relax their efforts to slash their costs and lower the economic threshold at which they can develop new fields.

A recent survey of 94 oil companies conducted by Robertson Research, a UK-based oil consultancy, shows the companies are using an average oil price of just $13.76 a barrel for 1999 budgeting purposes. Many are insisting that new projects must be profitable at $10 oil prices.

The survey also suggests oil companies have lost none of their ardour for securing access to low-cost oil reserves, especially in the Middle East. It shows a sharp rise in interest in Iran, Saudi Arabia and Kuwait, even though the last two countries still do not allow direct foreign investment in their exploration and production sectors, but are studying the possibility.

The long-term intentions of such producers has provoked intense debate within western oil companies. Some – including those that are keen to invest in Kuwait and Saudi Arabia – say they would view the opening of those oil industries as an admission by two of the world's leading producers that long-term prices are likely to fall.

"Unless they believe that world demand will pick up at quite a rate and over a long time, they simply don't need to add capacity," says one European executive who monitors the region.

Another indirect clue to possible long-term price perceptions will be whether the wave of consolidation in the US and European industry continues: "You cannot underestimate the sheer exhaustion that many chief executives feel at having to cope with low oil prices," says one merchant banker. For those companies with extensive exposure to high-cost areas, "the relentless pressure to consolidate" might prove overpowering if the current upward price trend stalls.

The threat of a slow death that faced a large chunk of the world's oil industry at the start of the year may have receded. But the depth of the downturn is likely to leave lasting impressions and more than a few scars on the industry.

BUSINESS OF EFFICIENCY by Vanessa Houlder

Beginning of the end

Developing nations are stretching the timeframe for weaning us all off oil and coal

Most oil companies remain deeply sceptical about the need to take action to curb global warming. But not all. The case for developing cleaner, renewable energy sources is being argued by a small, but influential part of the industry.

"We've embarked on the beginning of the last days of the age of oil," said Mike Bowlin, chief executive officer of Arco, the US oil and gas company, in a speech delivered in February. "Global demand for clean energy – natural gas, renewables, electricity and new energy technologies – will grow faster than overall demand for energy, including oil and coal," he said. Energy companies could recognise the growing demand for alternative fuels or "ignore reality and slowly but surely be left behind".

An energy company pondering how seriously it should take global warming has to assess a complex mix of factors encompassing science, technology, the international commitment to curbing climate change and public opinion, which is heavily influenced by the prevalence of climate-related natural disasters.

Last year, an exceptionally severe El Niño (a periodic warming of the eastern Pacific) served to illustrate the damage that could be inflicted by global warming. Six of the first eight months of 1998 set temperature records, China had its worst floods for three decades, two-thirds of Bangladesh was under water for most of the summer and Hurricane Mitch devastated large parts of central America.

Destruction of this sort can create a climate of opinion in which governments and companies start accepting the need for change.

"Among the most important developments since Kyoto has been the growing number of leading US corporations acknowledging that the threat of climate change is real. Many are now working to turn the promise of Kyoto into a reality, exploring new ways to use energy better and smarter," said Stuart Eizenstat, head of the US delegation at last November's climate change conference in Buenos Aires.

The Buenos Aires conference attempted to hammer out details of the international agreement struck in Kyoto a year earlier. In this protocol, developed countries agreed to reduce emissions by 5 per cent by 2008-2010, which represents a 29 per cent cut compared with the expected "business as usual" emission levels without the Protocol.

Over a year after the Kyoto protocol, countries are still struggling with the question of how they will achieve the savings they promised. The approach to greenhouse gas controls may vary significantly from place to place. For example, the

ENERGY EFFICIENCY

US is likely to put a particular emphasis on emissions trading, while several European countries are introducing energy taxes.

In addition, voluntary action by industry to regulate carbon dioxide emissions is becoming a significant adjunct to traditional environmental regulations, particularly in Europe, led by Germany and the Netherlands, Japan and the US. This year the EC Integrated Pollution Prevention and Control directive will come into force, requiring that industrial installations be operated in such a way that "energy is used efficiently".

But whatever tactics are used, the direct impact on global climate of developed countries' efforts to curb their greenhouse gas is likely to be limited in the short term.

Most future growth in emissions is expected to occur in the fast-developing regions of Asia and Latin America, which are not signatories to the framework convention. Moreover, given the long history of past emissions and the inertia of the climate system, a substantial amount of further climate change cannot be avoided, even if countries make cuts in current emissions.

As a result of these factors, the Kyoto target itself does relatively little to combat the rate of climate change, according to a group of UK scientists writing in Nature, the science journal last October. Fully implementing the Kyoto protocol would reduce the expected warming of 1.4°C by 2050 by just 0.05°C.

"The global numbers of people put at increased risk of hunger, water shortage or coastal flooding during storms as a result of project climate changes is hardly touched by the targets under discussion at Buenos Aires, even if full implementation of the targets is agreed there," they said.

This apparently inexorable rise in temperature underlines the importance of adaptation. It also underlines the perception that the Kyoto protocol is only the first step in a process that must eventually require much greater reduction in emissions, together with the participation of developing countries.

But even if the industrialised countries, acting alone, cannot hope to arrest climate change, there is a widely held view that they should take a lead. Unless industrialised countries make strenuous efforts to curb their emissions, it is unlikely that developing countries would be prepared to limit their own emissions. Moreover, the industrialised countries have a crucial role in spearheading the technological efforts to find alternative forms of energy.

For, in the end, the solution to the global warming problem is likely to depend on technological innovations that allow a shift towards cleaner energy sources.

At present, around 15 per cent of the world's energy comes from non-fossil fuels. That would have to rise to at least 50 per cent for the earth's atmospheric carbon dioxide content to be stabilised at twice pre-industrial levels, according to scientists from New York University writing in the journal *Nature* in October 1998.

The scale of this transition appears daunting. But the challenge could be an opportunity, the scientists said. "The potentially adverse effect of humanity on the earth's climate could well stimulate new industries in the 21st century, as did the Second World War and the 'cold war' in this century."

Calling up: (clockwise from top right) Humboldt State University's fuel-cell "neighbourhood electric vehicle"; the fuel-saving "Smile" car from Greenpeace; Rose-Hulman Institute of Technology's space-age Solar Phantom IV; and Necar 4, the latest fuel-cell innovation from DaimlerChrysler, which could be on the roads in as little as four years from now. Pictures: AP; Montage: Phil Hunt

FUEL EFFICIENCY by John Griffiths

Eco-cars show spurt

DaimlerChrysler's Necar 4 has come a long way from the concept cars of the past decade

An entirely new era in the history of the car has just been quietly ushered in on the picturesque roads around George Washington's former home on the outskirts of the US capital.

Quietly in a literal sense – the diminutive Mercedes-Benz A-Class scuttling through the trees emitted only a discreet whine.

Far more significantly, its "exhaust" was emitting water vapour, not pollutants or carbon dioxide, the main "greenhouse" gas.

The practically and commercially viable car powered by an environmentally "clean" fuel cell, rather than a petrol or diesel engine, may not yet be in the showroom. But the speed of its development has been a great surprise.

While the baby Benz may be first, Ford, General Motors and most other large manufacturers have made clear that they do not intend to be far behind.

Both co-chairmen of DaimlerChrysler, Jürgen Schrempp and Robert Eaton, were on hand to stress that the fuel cell project is for real and that cars will be on sale in just over four years' time. Just as importantly, said Mr Schrempp, the cars will be in the marketplace as genuine competitors, with none of the purchase subsidies that have underpinned many battery-powered vehicle sales.

Present, too, was Firoz Rasul, chief executive of Ballard Power Systems, the Vancouver-based company which developed the fuel cell technology and which has formed, in partnership with Ford and DaimlerChrysler, German-based dbb Fuel Cell Engines to produce them.

It is significant that under the terms of the deal, involving an investment of more than $1bn, dbb is free to sell the systems to other manufacturers. All three partners recognise the need for the technology to become generic if other industries are to respond and create its supporting infrastructure.

In much simplified terms, a fuel cell works by taking oxygen from the air and combining it with hydrogen to produce electric power for motors propelling the car. The availability of maximum torque from startup eliminates the need for a gearbox. Where pure hydrogen is not used, the hydrogen is extracted from methanol or other liquid fuel via an onboard reformulater.

There are still hurdles to overcome, most notably in terms of reducing component costs, the fuel to be used and the infrastructure needed to deliver it. Necar 4 uses pure compressed hydrogen at cryogenic temperatures. It thus emits neither pollutants nor CO2.

There are still hurdles to overcome in terms of component costs, fuel and the infrastructure needed to deliver it

But the development of a comprehensive infrastructure for the mass distribution of such a fuel almost certainly rules it out for any vehicle operations except those – such as airports – where vehicles operate locally and can be supplied from a single refuelling site.

Although DaimlerChrysler's development teams are working to a multi-fuel brief which will allow pure hydrogen, methanol or even petrol to be used, its own stance, and that of much of the automotive industry, is that methanol is likely to prove most practical, although it will still emit CO2, albeit at a rate claimed to be currently 30 per cent less than the most efficient internal combustion engine.

Since methanol can be produced ad infinitum from renewable resources such as trees, it offers the prospect of a transport industry no longer having to worry too much about oil drying up in 40 or so years' time. But it, too, needs its own distribution infrastructure, even if it can be fairly readily provided through separate tanks and pumps at conventional filling stations.

DaimlerChrysler is investing $1.4bn to turn Necar into commercial reality. Necar 4's performance, with a fuel cell size putting out the equivalent of 75bhp, includes a 280 mile range, 90 mph top speed and a fuel consumption equivalent to 86 petrol miles per gallon. Such is the current rate of fuel cell system development, DaimlerChrysler and Ballard Power Systems engineers suggest that by the time it reaches commercial production all elements, including CO2 emission levels, will have been substantially improved.

The fuel cell car will not arrive in the marketplace in time to make a substantial contribution to the European motor industry's voluntary commitment to cut carbon dioxide emissions on new cars by 25 per cent by 2008. Even DaimlerChrysler does not expect fuel cell cars to make a significant impact in terms of volume until after 2010, despite the generic nature of the technology – adding more fuel cells creates more power and will allow a quick spread through all sizes of vehicles.

Thus work on new generations of petrol and diesel engines, using such innovations as very high pressure fuel pumps and fuel delivery through an efficient "common rail", is proceeding unabated, with all sorts of variations in between – not least "hybrids" using battery and internal combustion engines combined to increase fuel efficiency and cut pollution. Toyota's Prius hybrid, soon to go on sale in Europe, is already selling more than 20,000 units monthly in Japan.

The EU target is a stiff one. But on present progress, the industry is well on course to meet it.

UN FRAMEWORK CONVENTION ON CLIMATE CHANGE by Vanessa Houlder

Tip of the iceberg steels political will

Signatories to the United Nations Kyoto Protocol have been stirred by the severity of last year's El Niño but ongoing talks are struggling to make progress

When ministers gathered in Buenos Aires last November for talks on climate change, the urgency of their task was dramatically underlined by a spate of natural disasters. A succession of severe droughts, hurricanes, forest fires and floods illustrated the problems that are likely to be exacerbated by rising temperatures.

But the outcome of the talks was unspectacular. One of the most tangible results was the US decision to become the sixtieth country to sign the Kyoto Protocol – the agreement on curbing greenhouse gases that was hammered out a year earlier – although there is still little prospect that it will ratify the protocol.

There were also announcements by Argentina and Kazakhstan that they would impose their own targets on limiting greenhouse gases.

More generally, the 160 countries at the conference agreed to finalise, by no later than 2000, a set of rules to make it cheaper and easier to reduce greenhouse gas emissions and to hold countries accountable when they emit more greenhouse gases than permitted.

In addition to declarations of this kind, there were some modestly encouraging trends. One such was a slight but discernible softening of the hostility of parts of the business community to the climate change agenda. Stuart Eizenstat, head of the US delegation at Buenos Aires, said: "We've got literally dozens of companies, world class companies, who want to be part of the solution ... This is a sea change in the position of many companies."

He also highlighted growing interest from developing countries in the "clean development mechanism" (CDM), which – along with "joint implementation" (JI) – was one of the mechanisms introduced in the Kyoto protocol to help "green" development flows to developing countries and economies in transition.

Using these mechanisms, investors from an industrialised country will get credit for an emissions abatement project carried out in developing or "transition" countries, at a lower cost than if the project had been carried out domestically.

The potential size of the JI/CDM market is significant. Over the next decade, it could reach about $10bn, according to the Switzerland-based International Academy of the Environment.

Some critics doubt the effectiveness of these measures. But the initiative also has champions who believe it could provide a strong incentive for developing countries to opt for a more sustainable form of development. They could potentially influence decisions about energy generation that will have a lasting impact on worldwide greenhouse gas emissions for years to come.

The cautious enthusiasm for the JI and CDM mechanisms at the Buenos Aires conference contrasted with the controversy that raged over the third "flexible mechanism", namely emissions trading.

This facility, which permits developed countries to trade their emission allowances with other countries, is strongly championed by the US. It cites the success of its sulphur dioxide emissions trading system for its acid rain programme, which resulted in 30 per cent faster reductions and 50 per cent lower costs than had been anticipated.

The European Union believes unlimited use of emissions trading might stop countries from making significant cuts in emissions domestically. In particular, it is concerned about wealthy countries buying their way out of their obligations, by trading in "hot air" the term used to describe the excess carbon "credits" that Russia and Ukraine are expected by have by 2010.

Public support will be needed to keep momentum behind the climate change initiatives

Much depends on the eventual outcome of the talks on these detailed mechanisms. "There is a lot of flexibility in the Kyoto agreement. We really cannot tell what it means until the detailed rules are negotiated," says Michael Grubb of the Royal Institute for International Affairs and the International Academy of the Environment.

The negotiation of the detailed rules could prove a drawn-out process. Several commentators compare them to the process of trade liberalisation that has taken place since the second world war.

"Trade liberalisation has moved forward not on the basis of a single all-embracing settlement but through a series of complex negotiating rounds," says Rodney Chase, deputy chief executive of BP Amoco. "We may need to think in terms of a similar process for the management of this issue."

The idea that climate change talks will be a matter of repeated negotiations rather than a one-off settlement is supported by commentators who fear that the Kyoto protocol may never be ratified, because the US will hold back from ratification unless a significant number of developing countries agree to limit their emissions.

If the Kyoto Protocol fails, some countries may be prepared to try again. Christopher Flavin, senior vice-president of the Worldwatch Institute, a Washington-based environmental think-tank, points out the new agreements have sometimes emerged from the ashes of failed environmental treaties.

For example, the landmines treaty of 1997 was spearheaded by a small group of committed governments which have moved ahead with voluntary pledges, after failing to reach a wider agreement.

But whatever approach is adopted, strong public support will be needed to keep the momentum behind the climate change initiatives.

Much depends on whether climate change remains in the public eye. Catastrophes have been the driving force behind many previous environmental agreements, says Mr Flavin. "In the end it may come down to the weather."

THE ROLE OF TAXATION by Stewart Boyle

US watches from sidelines

Not all countries are keen to tax their way to a cleaner environment

"It's a start," said Kai Schegelmilch. "We don't expect a big impact straight away, but it is the beginning of major long-term ecological tax reform in Germany."

Mr Schegelmilch, a senior researcher at the influential Wuppertal Institute, and energy tax adviser to the German Green Party, was assessing the likely impact of Germany's new energy tax, introduced on April 1.

With a carbon tax already agreed in Italy, significant energy tax increases tabled in the UK, energy excise duty harmonisation across the European Union (EU) now likely, and energy and carbon taxes already an integral part of tax reform in the Nordic region and the Netherlands, there is plenty of political will behind the issue in Europe.

In North America, there is little opportunity for this type of debate, but in Japan energy taxes may emerge as part of the country's emissions-cutting "Kyoto plan".

With oil prices falling from $28 in 1984 to as low as $9 per barrel this year, and energy prices lower in real terms than they were in 1993, how important are these developments?

For some they mark the beginnings of substantial tax reform. For others they simply balance out some of the energy price decreases over the past 10 years.

The UK Climate Change Levy proposal reflects current political realities. The government's support for the beleaguered coal industry and its pledge not to raise domestic energy taxes has stymied a straightforward carbon tax. Instead, the tax will raise around £1.75bn (€2.6bn) by increasing the wholesale price of electricity by around 17 per cent (0.6p/kWh) and gas by close to 40 per cent (0.21p/kWh), while reducing the employee tax cost to employers from 12.2 to 11.7 per cent.

Despite the government's words of support for renewable energy and efficient combined heat and power (CHP) plant, neither is exempt from the tax. Dale Vince, managing director of Renewable Energy, a trader in "green" electricity, says the proposals are a "missed opportunity".

David Green, director of the Combined Heat and Power Association, is equally unimpressed. "Arguments that you can't differentiate between coal-fired and CHP generated electricity don't hold water. CHP already gets exemptions from the fossil fuel levy so administratively we have a system to do it. Tax exemption for CHP and renewables would be consistent with government energy policy and give a clear signal to investors," he says.

'Politically, energy tax proposals for this Congress are a non-starter'

The German energy tax does give such a signal. It will be used to reduce labour taxes from 42.4 per cent to 40 per cent while raising energy prices by around 10 per cent over three years. Energy-intensive industries and farmers will be exempt from 80 per cent of the tax, and any company that pays more on energy taxes than they save on labour tax reductions can claim back 80 per cent of the difference.

CHP, which has an efficiency rate of 70 per cent or above, will be exempt from the German tax. Renewable energy sold on the grid will not be exempted, but the tax income of €102m will be used to fund renewable energy programmes.

A European Union Directive increasing minimum level energy excise duties is part of a wider EU tax harmonisation package. Although recent Commission upheavals and the June European Parliamentary elections will delay agreement, it could go through in the second half of 1999.

The directive would increase minimum levels of excise duty on mineral fuels, while introducing them for natural gas and coal. The new minimum excise duty levels will initially affect only a few of the 15 EU members, but the tax rates will increase in stages in 2000 and 2002 and will ultimately affect most EU members.

The extension of duty to natural gas and coal is also new for some countries. At present, only 10 countries tax natural gas and five tax coal. For coal, however, proposed exemptions mean that only 15 per cent of solid fuel consumption will be taxed. Judged on carbon content alone, one Commission official admits that "natural gas gets a harder time under the tax, while coal gets away a little easy ... but then this is EU politics".

The Dutch and Danish tax systems already have a range of energy and carbon taxes, including the recycling of tax revenues to both reduce other taxes and assist energy efficiency and renewable energy investments. Four different energy taxes apply in the Netherlands, including a recent additional energy tax which exempted energy intensive industries signing up for negotiated agreements on energy efficiency and carbon reduction.

This energy tax has an innovative approach to recycling the revenues, providing a 40 per cent tax credit for a list of selected energy efficiency and renewable energy measures. Data for the first year of operation in 1997 shows 7,000 applications for the energy investment tax credit were received, involving a total investment of about $325m. It is estimated that the tax credits increase the level of carbon saving by a factor of two to three compared with a straight energy tax.

In the US, no energy tax proposals have been mooted since a modest increase scraped through during President Bill Clinton's first term of office. Although US carbon emissions are increasing alarmingly for a country with a 7 per cent reduction target by 2010, Dan Becker, climate change lobbyist for the Sierra Club, the environmental pressure group, admits: "Politically, energy tax proposals for this Congress are a non-starter".

Article 3 of the Kyoto Protocol on climate change says signatories should, by 2005, "have made demonstrable progress" towards their 2010 greenhouse gas targets. "Introducing an energy tax would be one of the most immediate ways for EU countries to demonstrate progress," says Chris Hewitt, an eco-tax specialist from the UK think-tank IPPR.

Some countries are struggling to meet these targets, while the EU tax proposal could meet up to 10 per cent of the member countries' Kyoto target. The initial level of taxes may only change consumer and investment behaviour modestly, but a signal would be given that decreasing energy prices can no longer be assumed by industry.

The US, meanwhile, as the largest carbon emitter in the world, stands apart from these developments, and hopes that it can carbon-trade its way out of the problem created by its own obsession with cheap energy.

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RENEWABLE ENERGY by Vanessa Houlder

Bulimic habits must change

The development of energy technologies that rely on infinite resources should help normalise the world's appetite for fuel

If industrialised countries are serious about moving away from the fossil fuels that are blamed for global warming, they are faced with a daunting task.

"The bottom line is that we are going to need an international effort pursued with the same urgency as the Manhattan Project or the Apollo space programme," said a group of scientists in the prestigious research journal *Nature*, last October.

They calculated that there is a need to develop carbon-free technologies capable of providing between 10 and 30 terawatts (million million watts) of energy over the next 50 years. "The magnitude of the implied infrastructure transition suggests the need for massive investments in innovative energy research," they said.

On the face of it, the champions of renewable energy have few grounds for encouragement. At present, the Paris-based International Energy Agency says that renewable energy (excluding hydroelectric power) accounts for only about 4 per cent of the energy needs of its members, which are drawn from industrialised countries.

There has been little evidence of the large-scale research effort that has been called for. In the US, which is the biggest spender on energy R&D, total funding fell by 40 per cent from 1985 to 1994. In recent years, spending on basic research by gas and electricity companies has also diminished sharply, as a result of restructuring and the deregulation of energy markets.

And despite the efforts of some oil companies, such as BP Amoco and Shell, to invest in renewable energy, there is concern that low oil prices could jeopardise some projects. Although none of the leading oil and gas companies have formally cut back their alternative energy programmes, it is likely that some projects will be judged unviable unless there is a sustained increase in oil prices.

Nonetheless, enthusiasts for renewable energy can draw significant encouragement from developments over the last few years. Sales of solar cells expanded by about 15 per cent a year from 1990 to 1997, while coal and oil use increased at just over 1 per cent a year, according to the Worldwatch Institute, a Washington-based think-tank. The growth in wind power was even more substantial, at 26 per cent per year since 1990.

"While oil and coal still dominate the world economy, the new challengers are expanding at the kind of pace that makes venture capitalists reach for their phones," says Lester Brown, a director of the institute.

The growth of these energy sources has been fuelled by developments in technology and manufacturing. In the case of wind power, larger turbines, more efficient manufacturing and more careful siting of the machines have pushed costs down sharply from $2,600 per kilowatt in 1981 to $800 in 1998.

In total, the global wind generating capacity now stands at 9600 megawatts, creating a wind power industry that was valued at $2bn in 1998, according to the Worldwatch Institute. Germany and Spain are among the heaviest users of wind power, while Danish wind companies dominate the global export market. More than half the new wind turbines installed worldwide in 1998 were made in Denmark.

In the case of solar power, improvements in cell efficiency and materials have lowered costs by 80 per cent in the past two decades. The photovoltaic cell, a semiconductor device that turns the sun's radiation directly into electric current, is widely used in off-grid applications, as a power source for satellites and for remote communications systems.

According to PVUK, which represents solar manufacturers in the UK, the rapid growth in the world's photovoltaic market has helped stimulate increased investment in manufacturing facilities, particularly in Japan and the US. If the total system cost from design to installation is taken into account, the world market is estimated to be close to £1bn a year.

Photovoltaic energy is already cost-competitive for small off-grid applications, with potentially large markets in developing countries. A great number of other applications could come within reach if prices fall significantly. A recent study undertaken for the European Commission suggested that by scaling up production capacity for photovoltaics, costs could be reduced by between 75 and 80 per cent from current levels.

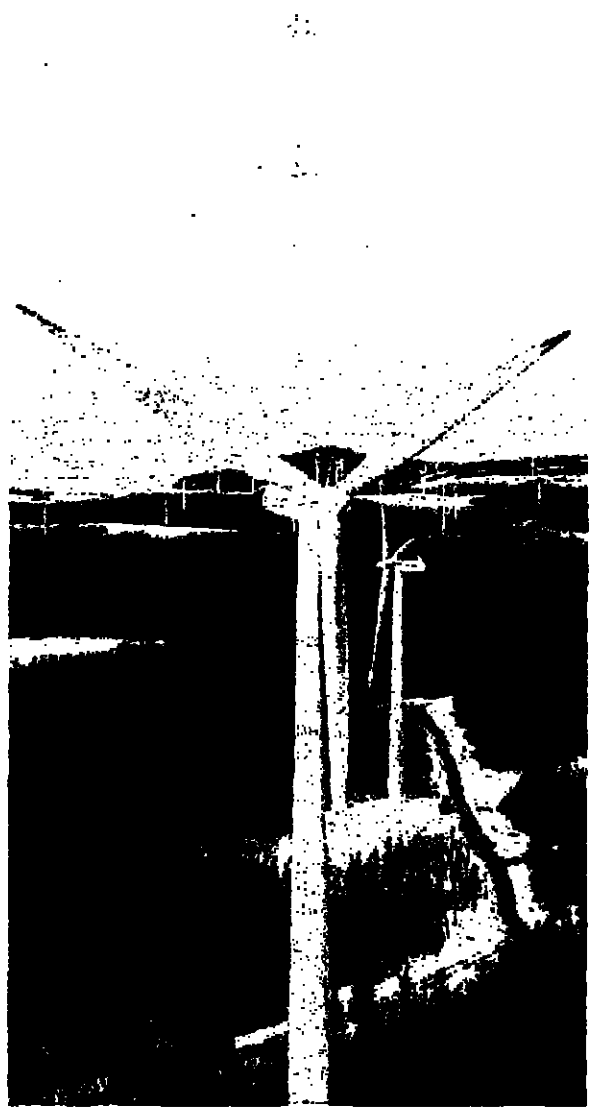
Another encouraging trend for the renewable energy sector is the endorsement of fuel cell technology by several large motor manufacturers, which view it as the environmentally friendly alternative to petrol and diesel engines.

Last month DaimlerChrysler unveiled what it claimed to be the first zero-emissions fuel-cell powered car suitable for production. The prototype uses hydrogen to generate electricity to drive the vehicle, producing mainly water vapour for the exhaust. However, the difficulty in storing and distributing hydrogen in liquid form is likely to mean that methanol – from which the fuel cell extracts hydrogen – is likely to be the fuel source for the first vehicles in production in 2004.

In the long term, fuel cells are tipped as a technology that could make an immense impact on energy usage. Much depends on the development of cheap, efficient and environmentally friendly techniques for separating hydrogen from water. In addition, much depends on the development of systems for storing and transporting hydrogen. Researchers are, for example, experimenting with metal hydrides or carbon nanotubes, as potential storage devices for large amounts of hydrogen.

The prospect of shifting the world's economy away from oil towards renewable energy and hydrogen presents enormous difficulties and heavy costs. But it also holds out the possibility of some attractive benefits besides the obvious environmental advantage. Renewable resources, such as wind and sunshine are far more evenly distributed throughout the world than oil. That means that the majority of countries could become far less dependent on a small number of producers than at present. This could have significant economic and political consequences, according to a report by the Worldwatch Institute.

"The international energy balance might be more like the world food economy today, where some countries are net exporters and others importers, but the majority produce most of their own food," it says. "In other words, energy would become a more 'normal' commodity, not one constantly on the verge of international crisis."



Wind-up merchant: Le Nordais in Quebec, Canada, site of the country's largest wind scheme, according to owner M&N Wind Power

EMISSIONS TRADING by Vanessa Houlder

Salvation or hot air

Corporates are pushing trading ahead of tax or regulations

The prospect of "emissions trading" – the introduction of a system of permits to emit greenhouse gases that could be traded between companies and countries – generates both enthusiasm and scepticism.

For its critics it is seen as a way for rich countries to export their pollution and evade their obligations. For its supporters it is a way of drastically cutting compliance costs, making the Kyoto Protocol targets achievable without imposing an excessive economic burden.

Emissions trading is viewed as an efficient way of reducing greenhouse gases, because places where it is cheap to cut emissions can make reductions and sell those emission rights to places where reductions are more costly.

Greenhouse gases are particularly suitable for emissions trading because unlike other pollutants, which have a local impact, the effect on global warming does not depend on where they are generated.

Some proponents of emissions trading envisage it being solely carried out on a government-to-government basis. Others, however, argue that companies, rather than governments, are best able to spot opportunities.

Both views may eventually be accommodated in a hybrid scheme in which company-level permits are traded internationally and taken into account when national targets are calculated.

Attention has focused on carbon dioxide, because it is the most important greenhouse gas and because it can be relatively easily measured. The market for tradeable permits in CO_2 could be sizeable, although it is likely to diminish in time as it proves successful in reducing emissions.

One estimate, published by the Electric Power Research Institute, puts the value of permits at $13,000bn by 2050. Another estimate, by the World Bank, suggests the value of outstanding permits will be $150bn by 2020.

There is already an appetite for experimenting on a small, local scale.

Unctad, the United Nations Conference on Trade and Development, is helping set up the International Emissions Trading Association, a group of about 60 multinational companies and environmental organisations which are exploring the ideas needed to get the market moving.

Already several commodity exchanges are considering making markets in emission permits and a handful of companies have begun to dabble in trading.

Most of these corporate trades have involved investing in "carbon sequestration" forestry schemes, although the companies run the risk that their projects will not be credited by domestic or international regimes when they are finalised.

Several countries are considering setting up national emissions trading systems to help them meet their obligations under the Kyoto Protocol. A "greenhouse gas emission reduction pilot" has been established in Canada, driven mainly by the provincial government of British Columbia.

The Norwegian parliament has recommended that Norway uses carbon emissions trading as a means of achieving its emissions target.

The New South Wales Environment Protection authority has also voiced its support for emissions trading.

In Japan the ministry of international trade and industry has set up an organisation to monitor emissions trading as well as initiate emissions reduction projects in Japan.

Finland, the Netherlands, Denmark and France have also expressed interest in emissions trading.

The US is an enthusiastic supporter of the idea, citing the success of its sulphur dioxide trading system, which delivered the required emissions reduction faster and more cheaply than predicted.

However, its reluctance to ratify the Kyoto protocol is likely to limit its involvement in an international scheme.

Despite the widespread support for emissions trading, there are numerous practical issues to be dealt with. The question of how to allocate permits is particularly difficult.

One possibility is a "grandfathering" method, which would base an organisation's entitlement on its emissions in a particular year.

Although simple, this approach gives an advantage to incumbents over newcomers and also favours those that have been slow to improve their energy efficiency and those with declining outputs.

Another possibility is auctioning permits, which would leave allocation decisions to the market, rather than the regulator. But this would prove highly unpopular with business, which views it as another tax.

There are also unresolved political issues to be tackled. One concern is that Russia and Ukraine are required only to maintain emissions at 1990 levels by 2010, which they are likely to accomplish with room to spare.

That may mean that countries can buy spare permits from Russia, avoiding the need to make real cuts of their own.

The fear voiced by many developing and European countries is that this so-called "hot air" trading will allow countries to get away without making significant domestic emission cuts.

COGENERATION by Stewart Boyle

A two-horse harness

Combined heat and power generation appeals to developed and developing economies alike

"Why cogeneration? The answer is simple. The investment in large-scale cogeneration gave us the opportunity to secure the flexibility of a long-term heat source and power prices at a favourable level."

As project manager of the largest cogeneration plant in the Netherlands, Karel de Blokis is in a good position to know. The Delesto 2 plant, a joint venture between Akzo Nobel, the chemicals company, and Edon, the local electricity distributor, came online last month.

It links a 350 MW combined cycle gas turbine with process steam for a chemicals complex, giving overall efficiency levels of up to 90 per cent. This compares with 45 to 50 per cent for an average combined cycle gas turbine plant (CCGT).

In a nutshell, these are the attractions for cogeneration, or combined heat and power (CHP) as it is sometimes known: high efficiency, flexibility of electrical and steam output, and low running costs.

Much of Delesto 2's electricity excess is sold to the grid at favourable prices.

In the Netherlands, cogeneration as a proportion of the total electricity supply has increased from 10 per cent to more than 30 per cent in little over a decade, matching Denmark and Finland's long-term commitment to heat and electricity stations.

In many other countries throughout the OECD, cogeneration capacity is on the increase, with attractive growing markets in Germany, the UK, Spain and the US.

According to David Green, chairman of the International Cogeneration Alliance (ICA), a business coalition, cogeneration provides around 6 per cent of the total electricity mix in the developed world, greater in Europe due to the higher levels in eastern Europe, the Netherlands and the Nordic countries.

In the developing world, industrial cogeneration, using natural gas and waste biomass products such as bagasse from the sugar industry, is an increasingly attractive option.

All power plants produce a great deal of heat. For large electricity-only plant run by state monopolies, heat is often regarded as a "waste" product, which needs massive cooling towers and very large quantities of water to disperse.

In developing countries, accessing water can be a problem. That is why plant efficiencies have stuck at 35 per cent for a number of decades, only increasing over the last decade due to CCGTs, which have taken efficiency levels up to around 45 per cent, once system losses are taken into account.

If, however, you have a suitable industrial, commercial or residential heat or cooling load (cogeneration can be used for space and process heating and also air conditioning), "waste" heat becomes a profitable product. It has the potential to increase overall efficiencies to between 70 and 90 per cent.

Electricity and heat mixes can also be varied, depending on consumer needs, though the best cogeneration systems are heat-led for optimum performance.

The rapid increase in cogeneration over the past decade has largely been linked to changes in the structure of electricity markets. David Green, chairman of the ICA, says: "Whereas electricity utilities often regarded cogeneration companies as competitors, new entrants can make money selling both heat and electricity, if the rules of the market allow that to happen." That's an important caveat in many countries.

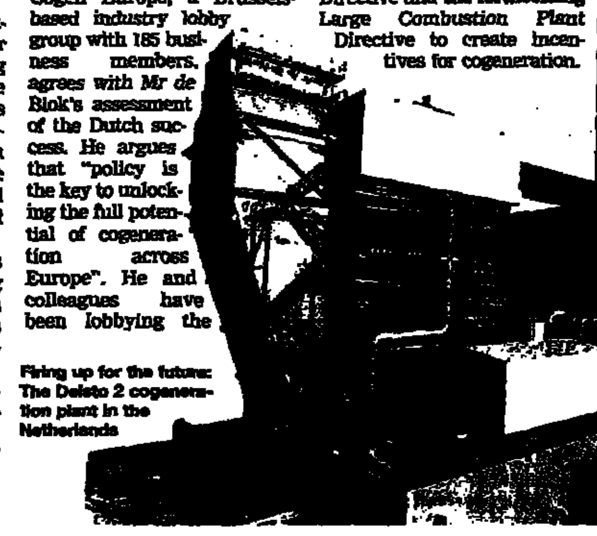
In the Netherlands, according to Karel de Blok, key elements in the rapid growth of cogeneration include "a long-term government policy to promote cogeneration, including setting up a Project Bureau for Heat and Power, providing grants for demonstration programmes and feasibility studies, and strong support from new electricity distribution companies."

Simon Minett, director of Cogen Europe, a Brussels-based industry lobby group with 185 business members, agrees with Mr de Blok's assessment of the Dutch success. He argues that "policy is the key to unlocking the full potential of cogeneration across Europe". He and colleagues have been lobbying the European Commission to set a target for cogeneration across the European Union.

The target, a doubling of current capacity to 18 per cent by 2010, was largely set in recognition of cogeneration's key role in reducing carbon dioxide (CO_2) emissions. Cogen Europe calculates the cost-effective potential to be at least 30 per cent.

The Commission calculates that cogeneration is the biggest single measure for reducing CO_2 across the EU, with a cost-effective reduction potential of 150m tonnes of carbon, greater than 15 per cent of the Kyoto target.

The cogeneration industry has also been lobbying for key amendments in both the Gas Directive and the forthcoming Large Combustion Plant Directive to create incentives for cogeneration.



Firing up for the future: The Delesto 2 cogeneration plant in the Netherlands

Flash points

- Germany is likely to increase cogeneration investment, if its energy reforms go through.
- UK capacity has doubled to close to 4,000 MW in the past decade. A new government target of 10,000-12,000 MW by 2010 is likely to be announced by the end of 1999.
- US cogeneration output is currently only 5 per cent of total electricity capacity. The Clinton administration has set a target of doubling this within 10 years.
- China already gets 12 per cent of its electricity supply from coal-based cogeneration, though this is of mixed quality.
- Chile has its own natural gas reserves and is changing regulations to allow excess electricity to be sold to the grid. The unrealised potential is more than 1,000 MW.
- Brazil's industrial cogeneration based on biomass products has substantial scope for growth, and a tripling of natural gas supplies by the end of 1999 will enhance investment opportunities.

CASE STUDY
BP AMOCO

Oiling the wheels of change

BP Amoco wants to stand apart from its peers but recognises the dangers of hubris

As the fossil fuel industry has become more deeply embroiled in the global warming debate, BP Amoco has played an increasingly conspicuous role.

It was the first large oil company to break ranks with the Global Climate Coalition, the US lobby group that opposed the Kyoto Protocol.

In addition, it has invested in solar power, set up a pioneering emissions trading system, imposed emissions targets of its own and even spoken out in favour of a form of energy taxation.

Global warming is the dominant public policy issue facing the oil and gas industry, says Rodney Chase, deputy chief executive.

"We are convinced that these issues are of such public concern globally that it would be quite wrong and dangerous for us to ignore them," he says.

It has started by trying to improve its own performance. Last year BP announced that it had a target of reducing its emissions of greenhouse gases by 10 per cent from a 1990 baseline over the period to 2010.

That is equivalent to an estimated 40 per cent cut from 2010 business-as-usual levels. To help it meet these targets it has introduced an emissions trading system, developed with the help of the Environmental Defense Fund, a US-based environmental group.

It selected a number of business units, which together account for 25 per cent of BP's carbon dioxide emissions. Each was allocated emission rights for

CARBON SEQUESTRATION by Vanessa Houlder

Not yet out of the woods

Deferring the release of carbon into the atmosphere is a controversial concept

Under pressure to control emissions, countries face two options. They can reduce their production of greenhouse gases or prevent those produced from getting into the atmosphere.

Attention is increasingly being focused on the second option, known as carbon sequestration, despite much scientific uncertainty about the mechanisms involved.

"With regard to climate change and its potential impacts, carbon sequestration could become a leading technological solution," the US department of energy said last year.

It is starting a programme of sequestration research, arguing that more research is needed now if viable technologies are to be available in several decades' time.

When researchers consider carbon sequestration, attention has tended to be focused on forestry. As trees grow, they lock away large amounts of carbon, which is not released until the trees die.

But there are several other potential forms of carbon sequestration. For example, a number of oil and gas companies are investigating methods of separating carbon dioxide from other gases and sequestering it by injecting it into oil reservoirs to improve recovery.

Oceans can act as carbon sponges because they contain creatures called phytoplanktons which store carbon dioxide, raising the possibility that adding iron to oceans would help phytoplanktons grow and absorb more carbon dioxide.

However, according to a paper published last year in Nature, the scientific journal, there is likely to be strong opposition to this approach because of the possibility of unforeseen chemical and biological consequences.

Another controversial idea for sequestering carbon was put forward by the US at a recent meeting of the UN's Intergovernmental Panel on Climate Change. It suggested counting landfills as "carbon sinks" under the Kyoto protocol.

Although landfills are usually seen as a problem because they emit methane, an important greenhouse gas, new evidence has suggested that they may be an effective store of carbon because most of the carbon in waste paper and wood takes such a long time to rot.

In comparison with landfill sites and ocean manipulation, the idea of planting trees to store carbon might appear a straightforward option. Indeed, the idea has many supporters.

Even before the Kyoto Protocol was agreed a number of companies had struck deals with plantations in the hope they could secure carbon "credits" by growing additional trees. Nevertheless, the proposal in the Kyoto Protocol that forestry could be used to store carbon is hugely controversial.

One aspect of the criticism concerns the way sinks are described in the protocol. Countries are allowed to achieve their commitments by deducting from gross emissions the greenhouse gas emission absorbed by "direct human-induced land use and forestry activities limited to afforestation, reforestation and deforestation since 1990".

The Worldwatch Institute in Washington voiced concern: "At least, as it is presently structured, the Kyoto Protocol appears to favour plantation development at the possible expense of natural forests."

The institute is disturbed by the protocol's emphasis on active management of forests and is dubious that plantations make as effective carbon sinks as natural forests.

Even though rapidly growing plantations are better carbon sinks than the apparently more static natural forests, the total amount of carbon stored is usually greater in the natural forest with its larger trees and richer soils.

Another strand of the criticisms of using forests as a carbon sink concerns the degree of scientific uncertainty about the subject. This is underlined by the difficulty faced by scientists in accounting for all the carbon dioxide now produced.

Last October the journal Science published controversial research suggesting that trees in the US could be sucking up nearly all the 1.6bn tonnes of carbon dioxide that is pumped into the atmosphere every year.

A possibility is that some of the carbon is being absorbed by young trees in areas cleared in the 19th century that have since been reforested. The increasing abundance of carbon dioxide might be increasing the growth rates of the forest.

The problem is that these sinks would not be long-term. When a forest matures its emissions of carbon can grow to exceed the amount it absorbs.

Also unclear is what will happen to the ability of the sinks to absorb carbon as the world gets warmer. Climate-related stress may have a serious impact on trees. A forest that is a net sink today may one day become a net source.

Indeed, research by the NERC Institute of Terrestrial Ecology in Edinburgh has suggested that after 2050 the world's vegetation and soil will become a source of carbon, releasing about 2bn tonnes of carbon into the atmosphere a year.

Some of the controversy may be resolved after the Intergovernmental Panel on Climate Change reviews the issue next year. But for the moment, serious doubts remain about the wisdom of storing as much carbon as possible as fast as possible. Sequestration still seems no viable alternative to curbing greenhouse gas production.

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the period 1999-2003.

The company said trades would be conducted through a broker in BP's oil trading arm. Environmental performance would be externally audited and the results reported publicly each year.

The scheme was launched last September. Soon afterwards the first trade took place when the Foinaven field bought 100 permits, representing 10,000 tonnes of carbon dioxide, from the Forties Pipeline System at a price of $17 per tonne.

On a wider level, BP Amoco argued in its evidence last year to the Marshall committee, the UK government taskforce on business energy use, that emissions trading and voluntary agreements were the most economic and effective way to curb greenhouse gas emissions.

When the Marshall report came down in favour of taxes, the company, which had initially been opposed to fiscal measures, entered the debate again, arguing for "targeted" taxes.

It conceded that a well designed energy tax could provide incentives for business to change behaviour. It proposed giving companies targets for emissions reductions.

They would then be taxed on the amount by which the target was exceeded or, alternatively, they would be given a tax break if they exceeded their target.

Mr Chase acknowledges that this scheme would probably be too complicated for small and medium-sized companies, but he does not believe that it would be unduly cumbersome for larger companies.

The UK government, which announced it was introducing an energy tax in February's budget, has yet to elaborate on its plans. But it is currently consulting with large companies about mechanisms by which they could reduce their emissions, in return for paying a reduced rate of tax.

Pressure groups are less enamoured with the company's position on the emissions reduction debate. Although its stance on global warming has been praised by some environmental groups such as Friends of the Earth, Greenpeace, the environmental pressure group, is campaigning vigorously against its exploration work on the Atlantic frontier.

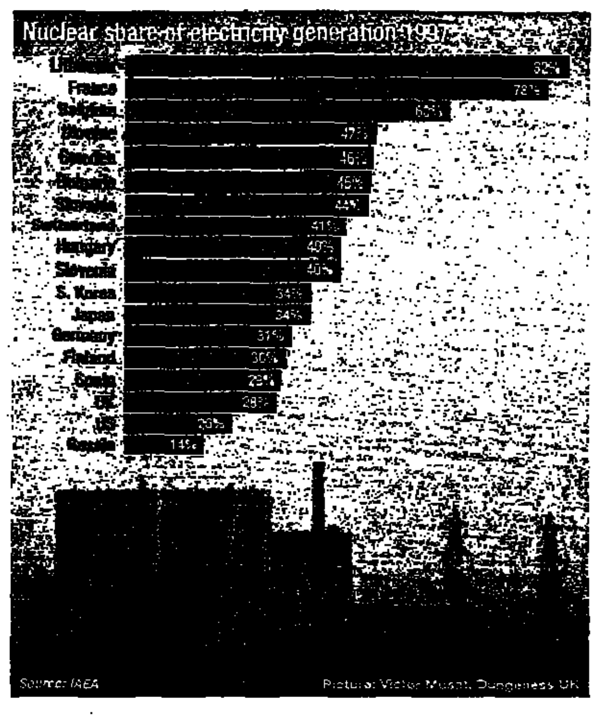
BP Amoco is aware of the fine line it is treading, especially with other oil companies. Being seen as the greenest in the industry is "full of latent hubris", says Mr Chase. "I don't think it would be a good thing to set a goal of getting so far ahead of the rest of industry that you have no influence over events."

Vanessa Houlder

NUCLEAR POWER by Andrew Taylor

Fission fans under attack

Nuclear producers are losing the debates over cost and environmental soundness



The nuclear power industry is in retreat as the twentieth century comes to a close.

Atomic energy, once the great hope of governments seeking "clean" cheap power to forge stronger industries and build a more comfortable life for their citizens, has fallen into disrepute.

Supporters of the energy souce have been left battling against a broad front of environmental, political, safety, commercial and economic concerns.

Nuclear accidents at Three Mile Island in the US in 1979 and Chernobyl in Ukraine in 1986 have undermined public confidence in nuclear plants as clean, cheap, safe, reliable power producers.

Public worries about spent fuel and leaking east European power stations carry most weight in rich western countries. But the sector faces other problems too.

The economics of electricity production have shifted in recent years away from nuclear power towards gas.

The capital cost of a nuclear power station, according to Adolfo de Ubieta, nuclear energy director at Unesa, the Spanish utility, is between $1,500 per kilowatt (kW) and $3,000/kW representing almost two-thirds of the total cost of electricity generation. Uranium fuel, which is cheap and plentiful, accounts for just 12 per cent.

This compares with a capital cost of just $400kW-$600kW for gas-fired plant, accounting for under 20 per cent of the total cost of power. Fuel accounts for almost 70 per cent.

Investors in nuclear reactors therefore face a huge upfront cost for a plant that might not be completed and income producing for up to 10 years.

Gas plants by comparison are much cheaper and can be completed and income producing in under two years. The main economic advantage that nuclear plant has over gas – the lower cost of uranium fuel – has also been eroded by the fall in gas and and oil prices.

According to the Uranium Institute, 30 nuclear power stations were under construction at the end of last year – representing less than 1 per cent of the world's total nuclear capacity.

Only one new plant was under construction – at Civaux near Poitiers in central France – in the whole of western Europe and North America.

Previously European and North American nuclear power companies could count on contracts in developing countries to offset falling order books in their home markets.

But even countries that are still committed to nuclear power, such as China, Japan, South Korea and India are expected to scale back expansion plans in the face of currency problems, lower growth forecasts and other economic strains.

Western nuclear engineering groups such as Siemens of Germany, ABB, the Swedish-Swiss engineering group, Framatome of France and British Nuclear Fuels (BNFL) also face strong competition from Russia and, potentially, from Mitsubishi, Hitachi and Toshiba, which dominate nuclear power construction in Japan.

Russia last year won an $800m (£449m) contract to complete a nuclear power station at Bushehr in Iran and has been asked to bid for three other Iranian reactors worth a total of more than $3bn.

But it is not all bad news for nuclear engineers. The low operating cost of nuclear reactors means that there is a strong economic incentive to keep existing reactors running as long as possible even if no new nuclear plant is being built.

The need to resolve the problems of global warming and reduce greenhouse emissions is another good reason, say nuclear supporters, for maintaining existing nuclear capacity.

Peter Hollins, managing director of British Energy, the nuclear generator and the UK's largest electricity producer, says nuclear power supplies 34 per cent of Europe's power, saving an estimated 700m tonnes of carbon dioxide from entering the atmosphere each year. Worldwide, nuclear generators supply 17 per cent of power, equivalent to 1.8bn tonnes of carbon dioxide annually.

The Uranium Institute, the international association for nuclear energy says: "Whether to apply for relicensing of older reactors will essentially be a decision taken by utilities worldwide on the basis of economics.

"Telling people that they will have to pay more for their electricity and that – pending the arrival of renewables on the scene – this electricity may be dirty is not likely to be a popular option."

The timetable for nuclear closures in Sweden has already slipped badly with the country's supreme court still to decide the fate of the first reactor planned for closure. Germany is also struggling to decide how best to pursue closures following the threat of large compensation demands from power producers and nuclear fuel reprocessors.

Some countries, such as the UK and Switzerland, have already approved extensions to the operating lives of old nuclear plants. Isabel Tocino, the Spanish environment minister, is keen to increase the output and operating life of Spain's existing nuclear power stations despite the country's moratorium on new construction.

For nuclear supporters the best hope is that the bottom of the cycle has now been reached.

CASE STUDY
NUCLEAR POWER IN GERMANY

The trouble with decommissioning

Clumsy attempts to outlaw nuclear power have angered representatives of all camps

Chancellor Gerhard Schröder came into office last year promising Germans that his new Social Democrat-led government would not "do everything differently" but that it would do a lot of things better than its predecessor. To anyone working in the country's energy sector the chancellor's promise must now seem like a bad joke.

The two main elements of the government's energy policy are a commitment to phase out nuclear power, which currently provides around one third of the electricity used in Germany, and to restrain consumption by the imposition of an "eco tax" on energy usage.

The tax, which the government says is not just a measure for protecting the environment but also a means of reducing Germany's high labour costs, as income from the surcharge will be used to cut social security contributions, came into effect on April 1.

Both policies bear the fingerprints of the Greens, the junior partner in Mr Schröder's coalition. And both have been criticised, not just by the energy sector but also by economists and members of both governing parties.

In the case of nuclear power, the government's initial attempt to press ahead with legislative changes which would have severely worsened the operating environment for industry sparked the first significant split within Mr Schröder's cabinet between hardline Greens such as Jürgen Trittin, environment minister, and pragmatists such as Werner Müller, the economics minister.

Mr Trittin wanted to force the pace of withdrawal with legislation which would have significantly increased costs for reactor operators by raising insurance premiums and tightening Germany's already notoriously strict safety regulations.

Mr Müller, a former energy industry executive who holds no party affiliation, wanted to follow a less confrontational course and win the approval of industry through a series of "consensus talks".

The row was not just confined to the cabinet table in Bonn. Mr Trittin's plans to enforce a swift end to the reprocessing of German nuclear waste by companies in France and Britain threatened to damage relations with two close European allies.

Mr Schröder was able initially to restore calm by backing down. Mr Trittin's proposed legislative changes were postponed as Mr Schröder made clear that the government was not prepared to foot the costs of an excessively hasty exit from nuclear power. According to industry, these could have run to several billion D-Marks in damages for the breach of reprocessing contracts.

But the chancellor's attempts to follow a more moderate approach of an "entry into an exit" from nuclear power have failed to placate industry. Last month, representatives from Germany's main reactor operating companies walked out of the consensus talks in protest over plans by the then finance minister, Oskar Lafontaine, to tax reserves set aside for the decommissioning of nuclear plants.

The dispute over tax has put Mr Schröder's plans for an orderly, pain-free retreat from nuclear into doubt. If no agreement can be reached with industry then the government has said it will simply force the issue with legislation. Such a move could be expensive as the big energy groups, such as RWE, Veba and Viag, say they would then take legal action against the government.

Analysts still doubt it will go that far. The most likely compromise remains the one Mr Schröder has consistently backed, namely that in the short term a handful of the country's 19 reactors would be shut down while the rest would be allowed to run for around 20 years.

Such a deal would benefit both sides. The actual decommissioning of reactors would allow the Greens to claim some success. Guaranteed longer life-spans for reactors would give industry a secure earnings stream from facilities which have long been amortised.

And industry also hopes that stretching out the process of decommissioning will keep the door open for a policy reversal in the future when opposition to nuclear power may wane, and the pressure to cut fossil fuel emissions to meet internationally agreed levels becomes more acute.

The "eco tax" is intended as a start. But many see it as inherently flawed. Exemptions granted to big industrial users mean that its impact is likely to be muted. The linking of "eco tax" income to social security contributions is seen by government economic advisers and some Greens as a recipe for future problems.

"It is unbalanced to try and link something you want to reduce – energy consumption – with something we all know is set to increase as demographic factors raise social security spending," said one Green MP.

Frederick Stüdemann

INTRODUCTION by Robert Corzine

Local economies develop taste for foreign money

Across the region, governments are changing tack. Gone are the days when they would turn away foreign investment. Indeed, in many cases they are now going out of their way to welcome it

MIDDLE EAST OIL

Mark Moody-Stuart, the chairman of Royal Dutch/Shell, the Anglo-Dutch oil group, began a recent swing through the Middle East with a visit to Kuwait. Upon arrival his hosts greeted him with the words: "We see you are going to Saudi Arabia next." When he reached Riyadh on the second leg of the tour, his Saudi hosts had a similar welcome prepared: "We see you have just been in Kuwait."

Mr Moody-Stuart's experience illustrates the high stakes that countries in the region are playing for as they move at varying speeds towards what some hope will be an eventual full opening of their energy sectors to foreign direct investment. As with most things in the Middle East, the process of opening the oil and natural gas sectors of some of the largest reserve holders in the world has not been particularly transparent. And it is not even certain that it will happen in all cases. But the prospect of access to some of the lowest cost oil and gas reserves in the world has tantalised both big and small international oil companies, which are busy opening or reinforcing offices in the region.

To understand why such an uncertain process has generated such intense excitement one needs to go back and examine the recent history of oil production trends outside the the Organisation of Petroleum Exporting Countries. In recent years billions of dollars have been spent in exploring increasingly remote or technically challenging areas of the world.

Although non-Opec production has risen steadily as a result, most forecasts suggest that in the coming decade non-Opec will struggle to keep up with growing world oil demand: "For the past 10 years non-Opec has had every financial incentive to squeeze the orange as hard as they can," says Gary Ross of Pira energy consultants in New York City. "But even with those incentives the world still needed more Opec oil. It's simply a matter of who has the reserves."

Gaining access to such low cost reserves has become a management mantra in the boardrooms of the biggest western oil companies. But why should the countries of the region be so keen on foreign capital, given that most of the region's oil can be produced relatively cheaply and simply with little need of the high technology equipment that is required in areas such as the North Sea?

In the case of Iran and Iraq, there is simply no alternative. Iran's oil and gas infrastructure has been starved of investment for 20 years. The government's high dependence on oil revenues for hard currency and to fund state expenditures means there is little left for the industry.

The "buy-back" programme now underway is a compromise that allows foreign investment into the strategic sector without violating the requirements of Iran's constitution, which bans foreigners from "owning" Iranian oil reserves. International companies have responded enthusiastically, not so much because the terms of buy-back deals are attractive – in some cases they are not – but because they hope to use the initial contracts as a basis for more enduring relationships with Iran's government and national oil company.

Once UN sanctions are lifted, Iraq too will have little alternative but to invite foreign oil companies to rehabilitate and expand its oil and gas industry

Once United Nations sanctions are lifted, Iraq too will have little alternative but to invite foreign oil companies to rehabilitate and expand its oil and gas industry. Unlike Iran, Iraq has no constitutional restraints, and a number of production sharing contracts – the usual format for foreign investment in most producing countries – have already been concluded or are ready for signing once the oil embargo is lifted.

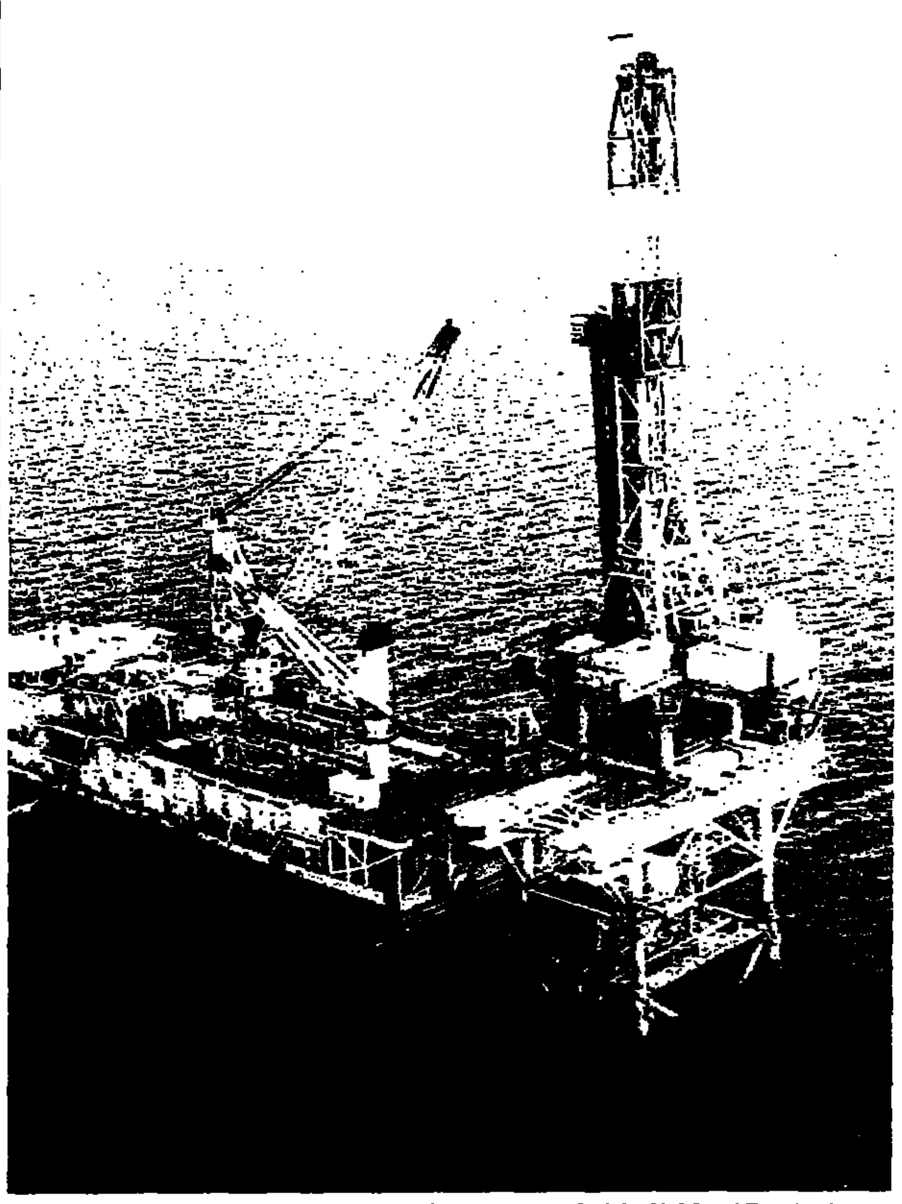
But in the case of Saudi Arabia and Kuwait, the two big Gulf Arab producers which have so far resisted foreign investment in their upstream oil sectors, the economic logic appears less clear, with political considerations likely to play a more important role in any eventual decision.

Foreign oil executives insist, however, that there is an economic case for outside investment. In the case of Kuwait, says one European oil executive, a valid argument 20 years ago would have said: "We have huge reserves that are an appreciating asset for future generations, so why should we allow foreigners to become involved."

But he claims that argument is no longer valid. The advent of increasingly tough environmental legislation around the world, the requirements under the Kyoto Protocol to reduce greenhouse gas emissions, the displacement of oil by gas in power generation, and new energy technologies, such as fuel cells, all threaten to undermine the pace at which demand for oil will grow. Given real price trends, it could be argued that oil is a depreciating asset.

Some have argued that in the case of Kuwait, a direct presence by US and European oil companies would cement crucial defence ties and enhance the state's long-term security. A similar argument is sometimes advanced for Saudi Arabia.

But others might view the opening of the two countries' upstream sectors as an admission that oil prices might not stay high for ever, and that they are preparing for future price wars.



Digging for gold: Total showed strategic aggression when it snatched the Sirri A and E contracts

IRAN by Robert Corzine

Investors walk on eggshells

The buy-back system, unpopular with many foreign oil companies, is thought to be under review. But putting money into the country still demands a mix of courage and delicacy

The opening of Iran's oil industry to foreign investment after almost 20 years of isolation has generated widespread interest among international oil companies, although the process has proved slower than many on both sides had hoped.

Last year the Iranians offered a wide selection of onshore and offshore projects, ranging from exploration to large-scale rehabilitation of big, mature fields. In recent weeks several deals – from projects offered under a 1995 tender – have been announced, including the Doroud and Balal fields, both of which will involve Elf Aquitaine of France.

The competition to enter Iran has drawn interest from both big and small oil companies. In some cases, the Iranians appear to be using small companies to draw out the true intentions of their bigger brethren. But in some projects smaller foreign oil companies have gone head to head with large, integrated groups, much to the annoyance of some executives from the latter: "Big Iranian oil fields should be reserved for big oil companies," says Christophe de Margerie, head of Total's Middle East division.

'No one wants to be accused of giving anything away'

Certainly some smaller companies have had trouble raising the finance to push Iranian projects forward. Bow Valley, a small Canadian independent, struggled for several years to finance the Balal development. Its original Indonesian backer fell victim to the Asian financial slump while its replacement, Premier Oil, pulled out of the deal earlier this month. Such companies rely to an extent on project finance to help support such schemes, and it has become harder to secure given Iran's patchy record meeting international debt obligations.

But many in the oil industry assume that, in common with most other developing countries, Iran will prefer a mix of different sized companies.

The slow pace at which the latest round of proposals is proceeding is probably attributable to several factors. The technical aspects of more than a few proposed projects are complex, and take substantial time to sort out. Iranian negotiators are also known to be tough, and there has been a significant amount of last-minute "nickel and diming" going on in individual deals: "No one [on the Iranian side] wants to be accused of giving anything away," says one western executive. Sudden shifts in the terms on offer have also been reported by some foreign companies.

Political backing in Iran for the buy-back programme may also not be as solid as some had thought: "The political system is not as sorted as we had hoped," says one European chief executive.

There have also been signs that Iranian priorities may have shifted since the conference in London last July at which more than 40 projects worth more than $8bn were unveiled. There have been certain recurrent themes, such as the development of offshore fields at the periphery of Iranian territorial waters or onshore fields near land borders. The development of the giant South Pars offshore gas field, which is shared with Qatar, where it is known as the North field and where substantial production is already under way, has also been a priority.

But some foreign companies believe the emphasis is shifting now towards onshore development, where the payback period for Iran may be shorter and the direct benefits more easily realisable, especially in a low oil price environment.

There may also be some new thinking about the buy-back mechanism in general. Many big western companies find it irksome, compared with the production sharing contracts that are available in most other producing countries. "The buy-back is good when there is great sensitivity about national sovereignty," says an official at a leading European oil company. "But you have to ask whether it is wise to take the whole oil price risk," as the Iranian government does under the buy-back mechanism.

Other executives are more blunt in their assessment: "The seven-year rent or fee that the foreign oil companies earn through buy-backs is not attractive at all," says a senior executive at another European company.

Iranian officials point to the evolutionary nature of Iran's opening to foreign investment, and suggest that terms will become more flexible over time. But in the interim they seem to be banking on the continuing enthusiasm of foreign oil companies to develop strategic ties with Iran.

CASE STUDY
TOTAL IN IRAN

Eagle eyes deny rapacious bent

Bold entry into war-torn Gulf countries gave Total a headstart on US rivals

Total, the French oil group, has made operating in politically sensitive countries something of a speciality. The company's long-term cultivation of its relations with Iran is a case in point.

Total's policy came under the spotlight in 1995, when it stepped in to take over a contract to develop the Sirri A and Sirri E fields in the Gulf that Tehran had originally awarded to Conoco of the US. Total's planned investments in Iran – which included the $2bn South Pars offshore gas contract signed in 1997 – sparked a transatlantic row between the European Union and the US, which after the passage of the controversial Iran-Libya Sanctions Act (Ilsa) threatened to apply unilateral sanctions against the company. The threat was withdrawn in May 1998, when Washington issued a waiver to Total as part of a wider understanding between the US and the EU.

Senior Total executives insist the high-profile episode was not merely an example of opportunism by the company: "We were not just vultures," says Christophe de Margerie, the president of Total's Middle East division. Total's quick reaction had nothing to do "with Conoco or the State Department". Rather, it was the result of a long-term strategic policy to target the Gulf, where the company has long had a significant presence, and which accounts for a big portion of the company's oil production.

"At the end of the Gulf War nobody wanted to invest in the area," said Mr de Margerie. "So we decided to be active in countries such as Iran, Iraq and Qatar." He insists that Total did not deliberately target Iran and Iraq because they were out of bounds for US competitors: "Historically, we've used our competitive position independent of what Americans could or could not do."

Total's links with Iran stretch back well before the 1979 Islamic revolution. Between 1954 and 1979 Total had a six per cent stake in the foreign oil consortium operating in the country, and was lifting between 200,000 and 360,000 barrels a day.

Mr de Margerie says Total is keen to expand its presence in Iran, although he has been critical of some aspects of the buy-back arrangements which govern foreign oil investment in the country.

He believes the contract duration is too short for many oil companies, and would like to see the foreign companies able to operate the fields for a longer period. At present foreign operating ends when a field is commissioned.

Total would also like to see more flexibility introduced into contracts, especially in those that cover big enhanced oil recovery projects: "When it comes to big, onshore, mature fields which need complex enhanced oil recovery, how can you say in advance what is needed and what is best for us and Iran? We need more flexibility. We need the capacity to change."

Total has also found that at times Iranian officials are reluctant to take decisions or to assume personal responsibility for them. That, Mr de Margerie believes, is in part a carryover from the isolation in which the industry has operated for many years: "Iran has been out of the international oil business for 20 years. They've missed the opportunity to exchange views and ideas."

As for eventual US involvement in Iran, Mr de Margerie says he would welcome it, especially the presence of US oil service companies and contractors. He says their absence from the Iranian market means foreign companies operating there are burdened with higher development costs than would otherwise be the case.

Robert Corzine

SAUDI ARABIA by Robert Corzine

Kingdom calls in US

The government is courting new suitors from abroad only months after rejecting a proposal from Eni of Italy

Timing, they say, is everything in life. That must certainly be the feeling among senior executives from Eni, the Italian energy group, which in November 1997 proposed to Saudi Arabia that it help fund the expansion of the kingdom's natural gas industry.

At the time many of Eni's competitors scoffed at the idea. So too did Ali al-Naimi, Saudi Arabia's oil minister, who told an energy conference in the Red Sea port of Yanbu that the kingdom was not only uninterested in any gas export schemes; it was fully able to develop its domestic gas resources without the help of foreign companies.

But last September, after Crown Prince Abdullah called in the chief executives from the leading US oil companies for a meeting in Washington DC to discuss ways in which they might help the kingdom to develop its industrial base, the industry consensus was that gas developments would be the most politically acceptable way forward, and would feature prominently in foreign proposals.

Although there was no specific promise that foreign companies would be allowed a role in exploring for or producing Saudi Arabia's oil and gas reserves, Crown Prince Abdullah's blessing for greater foreign involvement in the kingdom's energy sector triggered a flurry of speculation about Riyadh's true intentions.

David O'Reilly, executive vice-chairman of Chevron, the US oil company that drilled the first successful oil well in Saudi Arabia in the 1930s, believes the domestic debate over the extent of foreign involvement is at "a very early stage, with people outside the kingdom putting a more aggressive interpretation" on Saudi intentions.

Even so, the Saudi initiative appears genuine and serious: "They are desperately seeking foreign investment as a country," says Mr O'Reilly. Other foreign oil executives believe that need for investment has helped shift the opinions of some top officials, to whom "it is embarrassing to go cap in hand for help from the international oil industry".

Advocates of change argue that the very low oil production costs in the kingdom are more a function of high production from relatively few, very large fields, than from Saudi Aramco, the state oil group, having a firm hold on its cost base or exploiting the best technology.

Although Saudi Aramco has been run along commercial lines – in contrast to some other state oil companies in the Middle East, where domestic political concerns are paramount – it operates to some extent in isolation from the mainstream oil world. The ease with which most Saudi crude oil is produced means it has not had to stay at the cutting edge of key technologies, such as new drilling techniques.

Critics say the absence of competition has also dulled its commercial creativity in selecting future projects.

But in the past Mr al-Naimi has argued that Saudi Aramco's financial standing is such that it could gain access to capital at even cheaper rates than the best and biggest foreign oil groups. The fact that Saudi Aramco has acted in a more commercial way than many of its counterparts in the region also means it may be more resistant to changes which it views as questionable.

Most foreign oil companies have been reluctant to discuss the types of proposals they are putting forward, but it seems logical that most would be framed in a way that does not directly challenge Saudi Aramco's leading role. Nonetheless, some companies report that a wide range of ideas have been rebuffed by Mr al-Naimi.

One western executive believes Saudi officials will struggle in the coming months to balance their loyalty to Saudi Aramco and the need to assess specific foreign proposals in the context of the overall, long-term needs of the Saudi economy. Some say there will need to be progress in selecting projects in order to maintain the present level of foreign interest.

The original invitation by Crown Prince Abdullah carried a strong strategic message, especially as it was directed exclusively to the biggest US oil companies. In the ensuing months the list of potential participants has been widened to include several European companies, such as Elf Aquitaine, BP Amoco, Total and Royal Dutch/Shell.

But there is still a perception that Saudi Arabia would like to see commercial relationships with US companies commensurate with the kingdom's extensive security linkages with Washington.

It is unclear, however, how quickly the process will evolve. The recent rebound in crude oil prices may take some of the financial pressure off the government to embark on a policy that, even in such early stages, threatens to become heavily politicised, as has already happened in neighbouring Kuwait.

KUWAIT by Robert Corzine

Reviving a mercenary tradition

Depite local political wrangling, western oil companies are in confident mood

A serious debate over the role of foreign oil companies has been running in Kuwait for the past four years or so. Earlier this year Sheikh Saud Nasser Al-Sabah, the oil minister, said he had received approval to move forward quickly with the controversial plan to open some fields to foreign companies.

That was enough to persuade optimists that invitations to tender could be issued as early as this year, although others point to the continuing political controversy around the issue as evidence that preliminary debate could rumble on for some time.

In common with Saudi Arabia, the motivation to allow more direct foreign participation in Kuwait's oil exploration and production sector is complex, with a number of factors at play: "I think they're serious," says one senior European oil executive. "What they really want is a mix of finance, technology and political support."

The notion that foreign oil companies might develop Kuwaiti fields first surfaced in the aftermath of the Iraqi invasion.

As Kuwait's devastated oil industry was rebuilt, there was talk of allowing companies from countries that played decisive roles in the coalition that liberated the country, to have access to oil fields – especially ones close to the border with Iraq, or in offshore exploration acreage in areas close to Kuwait's marine boundaries.

Such an arrangement, it was argued, would ensure that Kuwait's most important western allies would have commercial as well as geo-political interests in ensuring the future survival of the tiny state.

That strategic argument formed a core around which Kuwaiti government technocrats at both the petroleum and finance ministries affixed more technical arguments in favour of foreign investment.

Not only would it ease budgetary restraints, but it would also ensure that Kuwait's oil industry was positioned competitively for the next century, with access to the latest technology and production practices. Foreign companies could also provide access to new markets for Kuwaiti oil, it was argued.

Unlike Saudi Arabia, Kuwait has already identified the fields which it hopes to offer to foreigners under 20-year operational services agreements.

Five of the fields are in the north of the country and two are in the central region. Their development would enable Kuwait to expand its production capacity of 2.4m barrels a day by approximately 1m b/d by about 2005.

One western oil executive who has been championing his company's cause in Kuwait believes there would also be additional, intangible benefits from direct foreign investment: "Foreign companies bring capital, know-how and engagement. It's like getting a new neighbour."

More cynical foreign oil executives point to yet another benefit of using international oil companies as a way to raise investment finance: "With us they don't have to open their books as they would have to if they borrowed money from foreign banks."

But what started as a strategic initiative with apparently clear and ostensibly compelling commercial advantages soon became bogged down in bitter political debate within Kuwait's fledgling parliament: "The technocrats were stunned by the visceral public and political reaction," says one US executive who has spent most of his career in the region.

The vehemence of the domestic political debate has caused executives from other foreign companies to be wary about the prospects for early oil investment.

"Internally these are very sensitive issues," says David O'Reilly, executive vice-chairman of Chevron, which several years ago signed an oil service contract with the government in the hope it would lead to broader involvement in the Kuwaiti oil industry. "I sense that the mood is to open up but that the size and scope has not been resolved. Some thinking [in Kuwait] says it's not a good thing."

Others, who decline to be named, are more blunt in their assessment: "It's the politics of ignorance," says one European executive. "The politicians just don't understand what is being proposed."

> **'It's the politics of ignorance. The politicians just don't understand what is being proposed'**

For some oil companies, Kuwait has been a trying experience. BP Amoco, the UK group, also entered into a service contract in the hope that it would evolve into a direct investment opportunity.

At one stage it looked as though the company might become a victim of its own success. It had put so many of its best people on the project that some Kuwaitis wondered why they needed to offer BP Amoco anything more.

Some foreign companies have also found that a wide gulf exists between government attitudes at the technocratic level, with whom they can converse easily and who see any opening of the sector within a wider industrial and economic political context, and the more internal focus of some members of the ruling Al Sabah family.

But the lure of low-cost reserves keeps companies coming, even those which, unlike BP Amoco and Chevron, had little previous experience with Kuwait's upstream sector. Conoco of the US used a refining service contract as its entry point into the country. Others, such as Lasmo, the UK oil independent, have opted for a private sector approach: it has formed a joint venture with a Kuwaiti company.

The exact role of the Kuwaiti private sector in the process is thought to be one of the issues still to be resolved.

As for nationalist sensitivities, some western executives believe they are overblown: "Gulf Arabs are used to a mercenary tradition," says one American oil man. "In the past, others have often come in and managed their resources for them."

The resilience of the Burgan oil field, Kuwait's largest, was vividly demonstrated during the Gulf War when the Iraqi army set it alight. In spite of the large-scale sabotage, the field's output recovered quickly. The ease with which oil has been produced at Burgan – where the pressure of which is driven by a large acquifer underneath the oil reservoir – is well known in the industry. But even super-giant fields such as Burgan enter a mature phase in which they must be intensively managed, especially as ever larger volumes of water enter the depleting oil reservoir. Although Burgan is not one of the fields to be offered to foreign companies, it has benefited from the technical service contracts that Kuwait entered into with companies such as BP Amoco, Chevron and Total. The contracts were used by the companies to impress on the Kuwaiti authorities the potential benefits of the latest technology. BP Amoco used its company intranet to tap the expertise of its reservoir engineers worldwide to advise on the best ways to handle the increasing amount of water produced at Burgan AP

ABU DHABI by Robin Allen

Diversified assets mitigate oil crisis

Luck and judgment have helped shield the emirate from attack

In very few Middle East states is the power of money so visible as it is in Abu Dhabi. The state is oil capital of the United Arab Emirates (UAE), and owner, according to Obaid al-Nasiri, petroleum minister, of 10 per cent of proven global oil reserves and four per cent of the world's reserves of natural gas.

The rest of the oil-dependent Gulf states may be floundering in cash-flow crises brought on by low oil prices. But Abu Dhabi is perfectly capable of keeping up the pace of development: it has $170bn worth of liquid overseas assets, nearly twice as much as Saudi Arabia and Kuwait combined, and a total population including expatriates of fewer than 3 million. The future looks bright despite a fall of 40 per cent in the price it gets for its oil compared with last year, and a self-imposed limit on oil production of 1.8m barrels a day (b/d).

Opec production quotas for the UAE are set at 2m b/d. But despite having some half a million b/d of idle capacity Abu Dhabi has been willing to act as swing producer for the rest of the country – a policy which allows the UAE's two other oil-producing states, Dubai and Sharjah, to ignore Opec.

But even if oil production and expansion projects are curtailed, other areas of the petroleum industry have not been idle.

The emirate's International Petroleum Investment Company (IPIC) is working on plans to acquire 50 per cent of Hyundai Oil, South Korea's refiner, for some $500m.

At home Abu Dhabi National Oil Company (Adnoc), the state-owned holding company for all 17 national and joint-venture oil, gas, petrochemical and related companies under the overall direction of the Supreme Petroleum Council, announced a fundamental restructuring last November to improve efficiency and effectiveness.

Meantime billions of dollars are being spent on exploiting the emirate's huge natural gas reserves to act as fuel and feedstock for its fast-growing petrochemical industries and power needs.

According to Mr Al-Nasiri, proven recoverable reserves of natural gas amount to 6,200bn cubic metres, or some 217,000bn cubic feet.

Global demand for natural gas, according to the ministry, is expected to grow by nearly 50 per cent by 2010. Abu Dhabi's own needs, according to industry specialists, are nearly twice that, with domestic consumption expected to more than double over the next 10 years.

> **Abu Dhabi still needs to import natural gas from Qatar**

While aggregate reserves are plentiful, divided roughly half onshore and half offshore, gas in Abu Dhabi's Khuff zone offshore is very deep, dispersed into "pockets" which are hard to get at, with much of it having a high sulphur content, which means more money has to be spent to build installations before it is clean and sweet enough to be used for power and feedstock.

So despite its vast reserves and no lack of investment funds, Abu Dhabi still needs to import natural gas from neighbouring Qatar, if it is to widen its targets of export markets as well as meet domestic needs.

Qatar has more than three times Abu Dhabi's reserves in its North Field area and at depths which are easy to exploit.

In order to meet its agreement with Dubai to supply it with 800m cubic feet a day (CFD) of natural gas, Abu Dhabi is reported to be considering buying its own concession area in Qatar's North Field in addition to acquiring an existing one. It is also to build a pipeline from Qatar to its own expanded power station at Taweelah.

Abu Dhabi Gas Liquefaction Company (Adgas), a 51/49 per cent joint venture between Adnoc and foreign partners including BP-Amoco, Total and Mitsui, which has been exporting liquefied natural gas (LNG) to Japan, its main market, for the last 20 years, as well as to the US, Italy, and Spain, recently sent its first exports destined for the US on board Adnoc's own tankers.

Last month Adgas agreed in principle to supply 500,000 tonnes per annum (TPA) of liquefied natural gas (LNG) for 20 years to Enron for its Dabhol power plant in India.

Adnoc is also pushing ahead with petrochemicals' development. Last November, Abu Dhabi Polymers Company (Borouge), the 60/40 joint venture between Adnoc and Copenhagen-based Borealis, awarded Germany's Linde and the US's Bechtel a $820m contract to build a 600,000 TPA ethylene plant at Ruwais, 200 kms west of Abu Dhabi. Other petrochemical projects being considered include an aromatics plant and expansion of Abu Dhabi's fertilisers industry.

IRAQ by Roula Khalaf

Death by sanctions

Did Washington spike the sector's recovery programme?

If the United Nations sanctions imposed on Iraq eight years ago were lifted tomorrow, the Iraqi oil sector would require tens of billions of dollars of rehabilitation to generate the funds needed to rebuild the ravaged country.

Sanctions, of course, are not about to be lifted, despite the erosion of support, especially in the arab world, for measures that hurt the Iraqi population far more than the regime they are supposed to target.

So, as Iraq grapples with life under sanctions, it finds that its oil industry, which dominates its economy and used to account for virtually all foreign exchange revenues, has gradually sunk into a lamentable state with oil wells watering out and capacity dropping.

Sanctions deprived Iraq of all oil exports until Baghdad agreed at the end of 1996 to an exemption allowing it to sell $2bn worth of oil to buy food and medicine every six months. Last year the UN security council agreed to increase the oil-for-food deal up to $5.2bn.

Because of the damage inflicted on the oil industry in the past seven years due to the lack of spare parts and given the slump in oil prices, Iraq has not been able to lift six-month export sales beyond $3bn.

While before the Gulf war total production stood at 3.07m barrels a day, production today is estimated at about 2.5m b/d, 550,000 bpd of which is for domestic consumption.

According to a report by experts at Saybolt Nederland BV, which was contracted by the UN, the predicted decline in the overall oil production capacity of Iraq has been in the range of 4 to 8 per cent.

It says production is being lost to wells that are watering out and the ability of the industry to treat crude oil prior to export is limited because crucial spare parts have yet to arrive and be installed.

A significant number of wells have ceased production in the north and south due to the lack of water removal facilities, and about 20 per cent of wells are irreparably damaged. The others could be returned to production if appropriate spare parts were provided.

The UN security council has agreed to a $600m allocation for Iraq to spend on spare parts, with the first $300m approved six months ago, but approval of contracts and delivery have been exceedingly slow. So far only $10m to $15m worth of spare parts have arrived in Iraq.

Saybolt predicts that an increase in production levels is unlikely before March, 2000. Although the US has now speeded up approval of contracts, diplomats say Washington last year was deliberately delaying approval of parts that could restore the industry rather than give it a temporary ability to raise production.

The Iraqi regime, which has always objected to the oil-for-food deal on grounds that the US and Britain want to substitute it for a lifting of sanctions, never ceases to make plans for its industry in the post-sanctions period.

The government wants to raise production to 3m bpd six months after the end of the embargo and to 3.5m bpd within two years.

With tens of billions of dollars needed to revive the oil sector, the government has tried to win political support for an end to the embargo by dangling the prospect of huge potential oil deals.

Iraq's oil industry was nationalised in the 1970s, but the government has started to offer production-sharing agreements in discovered fields. In 1997 it signed a deal with Russian companies to develop the West Qurna field.

Chinese companies won a contract to develop the Al-Ahdab field and France's Total and Elf Aquitaine are believed to have been in talks with the government to develop two fields in the south of the country.

These deals, however, can only go into effect and help develop the Iraqi industry when the sanctions are lifted. Not surprisingly, Russia, China and France have tried to push for an end to sanctions, leading to severe splits among the five permanent members of the UN security council.

The US and Britain continue to oppose a lifting of sanctions and will not allow any funds to fall into the hands of the Iraqi regime. According to UN resolutions, the sanctions can only be removed when Iraq is declared free of weapons of mass destruction.

The controversial UN arms inspectors' commission, Unscom, however, says that after seven years of inspections Iraq has not yet complied with disarmament requirements.

Instead of looking at a lifting of sanctions, the US is trying to find ways to allow Iraq to increase its oil sales and alleviate the suffering of the population, but under the strict rules of oil-for-food in which all export revenues are scrutinised by the UN and all contracts approved by a UN committee.

The paralysis on Iraq policy in the security council, which deepened following last December's four-day US and British air raids, has led members to agree to form a panel to look into the state of disarmament and how arms inspectors may be sent back to Baghdad.

Iraq refuses to let them in, since it it was their negative report to the UN security council which triggered the US and British raids in December. Other panels are studying the humanitarian situation in Iraq and the accounting for Kuwaiti prisoners of war captured in Iraq's ill-fated 1990 invasion.

Where UN policy on Iraq goes from here will depend on the recommendations of the panels, in particular the disarmament group, which report back in April.

But whether their results lead to an easing of sanctions, raise Iraqi production and allow reinvestment in the Iraqi oil industry is far from certain.

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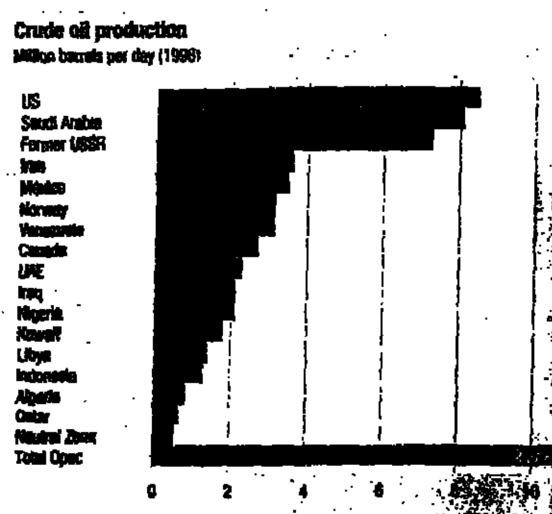
IN THE NEXT WORLD ENERGY REVIEW
The June 9 issue of FT World Energy review will focus on three themes: Power Generation; Offshore Technology; and Developments in Eastern Europe and the Caucasus. For synopsis details, call 0171 873 4090. For editorial, call 0171 873 3416. For advertising, call 0171 873 3760

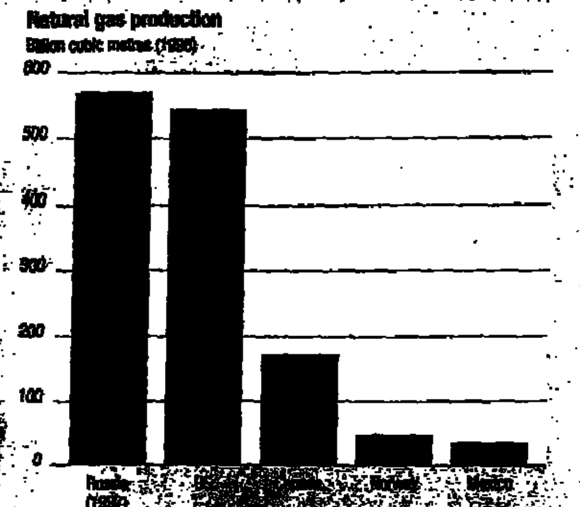
STATISTICS

This new section of statistics on mergers and acquisitions activity, and energy prices and production aims to keep the industry observer up to speed with current trends. Each subsequent edition of the quarterly FT World Energy review will contain a similar spread of up-to-the-minute data from across the industry.

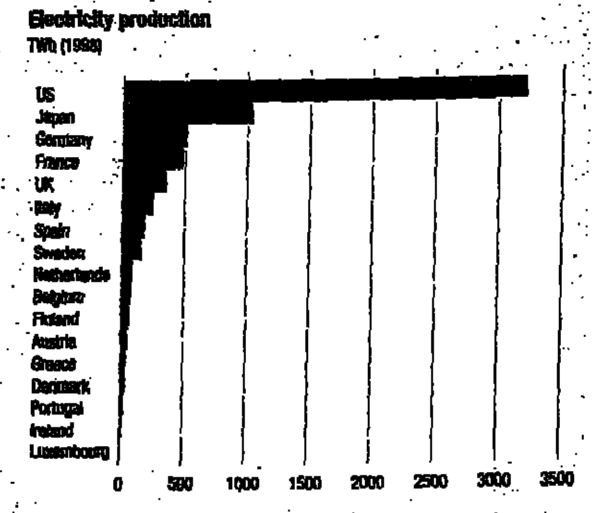
Crude oil production
Million barrels per day (1998)



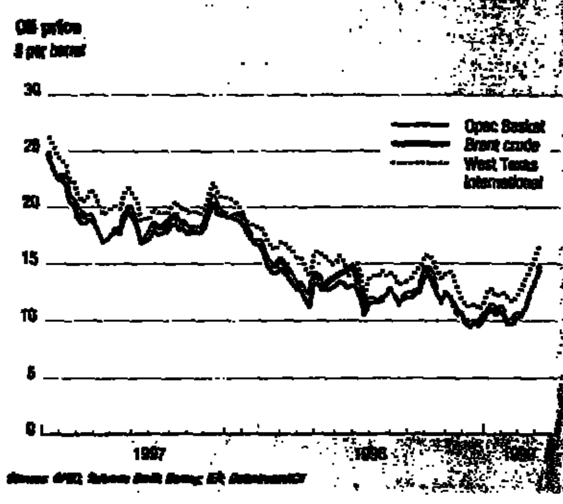
Natural gas production
Billion cubic metres (1998)



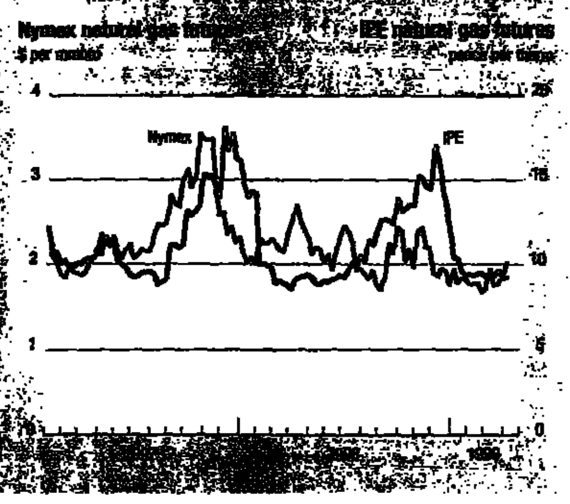
Electricity production
TWh (1998)



Oil prices
$ per barrel



Nymex natural gas futures / IPE natural gas futures



Electricity prices
US cents/kWh

	Industrial 1997	Industrial 1998 Q4	Household 1997	Household 1998 Q4
Austria	8.1	-	16.9	-
Belgium	8.5	-	16.8	-
Denmark	6.4	7.2	19.5	22.6
Finland	5.2	5.2	10	10.2
France	4.8	-	13.4	-
Germany	7.2	-	16.1	-
Greece	5.3	-	10.2	-
Ireland	6.3	6.3	13.1	12.9
Italy	9.4	-	15.9	-
Japan	14.6	-	20.7	-
Netherlands	6.3	6.6	13	13.6
Portugal	9.8	9.9	15.6	15.5
Spain	6.4	-	18.3	-
Sweden	3.4	-	10.1	-
UK	6.5	-	12.6	12.1
US	4.4	3.6	8.5	7.9

MERGERS & ACQUISITIONS by Andrew Taylor

US and Europe plug into Asia Pacific

The first of a new quarterly update of M&A activity in the world's electricity markets, with data supplied by PwC

Further sightings of green shoots of recovery in Asia have emerged with figures showing an increase in international investment in the region's electricity industry.

The statistics compiled by the global energy and mining division of PwC, the international accountants, reveal that cross-border acquisitions and strategic stake building in Asia Pacific rose to $2.6bn during the first three months of this year.

This was the same as the total value of deals in the region for the whole of 1998. The previous year international acquisitions in the power sector reached $12bn in Asia Pacific.

Simon Allen, European head of utilities at PwC's financial advisory services, says increased spending on acquisitions during the first quarter of this year "indicates renewed interest in the Asia Pacific region following the economic troubles in late 1997 and 1998".

The region topped the inward investment table during the quarter in terms of both total value and number of deals concluded.

The biggest of the 10 deals completed in the region involved the sale for $1bn of a 5 per cent stake in Korea Electric Power Corporation to institutions from the international scene.

Worldwide there were 20 cross-border deals in the power sector with a combined disclosed enterprise value of $8.3bn (including acquisition of debt).

This represents almost four times the total value of completed deals at the same stage last year, says PwC. Its statistics will form a regular series which will be updated in subsequent quarterly editions of FT World Energy review.

Privatisation and liberalisation of global power markets has prompted a surge in cross-border acquisitions and strategic stake building led mainly by US and European electricity companies.

The largest deal in the first three months of this year involved the acquisition of Una Energieproductiebedrijf, one of four Dutch generators, by Reliant Energy of the US for a total cost of $2.4bn.

Reliant, formerly known as Houston Industries, faced tough competition from rival bidders, thought to have included Texas Utilities, owner of Eastern, the UK's largest electricity supplier.

PwC expects further large cross-border transactions to be made in European Union countries which, under an EU directive triggered in February, must open just over a quarter of the community's power market to competition.

International acquisitions in the European electricity sector almost doubled to more than $20bn last year. Cross-border acquisitions worldwide increased by almost 36 per cent to $49.7bn.

European bidders accounted for 59 per cent of all cross-border deals by value during 1998. US bidders accounted for another 37 per cent.

US electricity markets are also in the process of being liberalised which has encouraged European utilities to reverse the recent transatlantic trend of US power companies making acquisitions in Europe.

National Grid, the UK power transmission company, made an agreed $1.03bn bid for Eastern Utilities Association of the US in the first quarter, following up its $4.6bn agreed bid for New England Electrical Systems at the end of last year.

Both offers have still to be approved by US authorities as has Scottish Power's $11.8bn agreed purchase of PacifiCorp also made last year.

North American power companies remain very active in international markets and were represented in nine of the 20 deals concluded in the first quarter. These accounted for more than two thirds ($5.6bn) of the total value of transactions. European bidders were involved in five transactions with a total value of $1.3bn.

Privatisation and liberalisation of power markets in Latin America continues to attract strong interest from US and European utilities despite economic difficulties in the region.

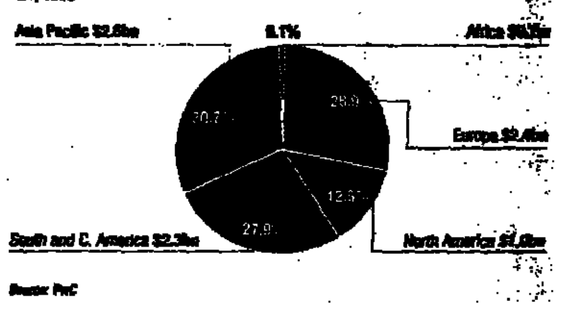
The second biggest cross-border deal in the first quarter involved Duke Energy of the US which has bid $2.1bn for a 51 per cent stake in Endesa of Chile.

The quarter ended with shareholders in Enersis, Chile's largest electricity company, voting to change shareholding rules, which should open the the way for Endesa, the Spanish power utility (no relation to the Chilean Endesa), to double its 32 per cent stake in Enersis, through a $1.45bn offer.

The market is now waiting to see whether the Spanish Endesa, through Enersis, will make a counter-offer for the Chilean Endesa, topping the bid by Duke. Enersis already owns a 25 per cent stake in the Chilean Endesa.

Total cross-border spending on power assets in south and central America during the quarter was $2.3bn.

Cross-border electricity transactions by target continent
Q1, 1999



Source: PwC

Top 10 cross-border electricity acquisitions
Q1, 1999

Bidder (full name)	Bidder nationality	Target (full name)	Target nationality	Bid value ($m)
Reliant Energy	US	Una Energieproductiebedrijf (100%)*	Netherlands	2,400.00
Duke Energy	US	Endesa (Chile) (51%)	Chile	2,107.46
National Grid Group	UK	Eastern Utilities Associates	US	1,038.00
Undisclosed bidder	Int	Korea Electric Power (5%)	South Korea	1,002.12
Edison Mission Energy	US	Contact Energy	New Zealand	644.40
Undisclosed bidder	Int	CITIC Pacific (Shanghai Pudong plant; 25%)	China	300.93
PowerGen	UK	Gujarat Torrent Energy (48.34%)	India	235.84
AES	US	Ecogen Energy	Australia	223.08
Enron	US	Elektro Eletricidade e Servicos (42.8%)	Brazil	215.63
Electricidade de Portugal	Portugal	CEM (12%/5%)	Macau	71.23

Source: PwC
* Percentage stake

VIEWPOINT
ROBERT MABRO

Cycles, trends and graveyards – spot the difference

If analysts and oil companies persist in assuming every new price correction marks the start of a new trend, they will keep digging their own graves

Small imbalances in oil supplies and demand on world markets can cause significant changes in prices. In this respect oil is a raw material which behaves like any other primary commodity.

In 1996 oil prices shot up. The price of Brent (the North Sea benchmark crude) rose from a low of $16.15 a barrel to a peak of $25.22 a barrel in that year – a rise of 56 per cent. All that happened was an unexpected increase in demand which the industry was unable to meet from inventories.

In 1998 oil prices collapsed. The price of Brent fell from $16.15 a barrel on 30 January to a trough of $9.21 on 10 December, a decline of 43 per cent between the two dates. The cause: excess supplies due to miscalculations on the part of oil-exporting countries.

Towards the end of 1997 they mistakenly thought that the strong demand of previous years would prevail and justify increases in production. Alas, the Asian economies were collapsing at the time. And Asia had been the engine of growth for oil demand during the past 12 or 15 years.

The economic crisis affecting this critical region was bound to have a devastating effect on the world petroleum market. And it did.

Most commentators and many professionals in the oil industry tend to interpret any significant price movement as marking the start of a new long-term trend. They always seem to discover symptoms of fundamental structural changes.

In 1996 high prices led some analysts to believe that the old fears of an impending scarcity which did not materialise in the 1970s are back to haunt us – and that this time the threat is real.

In 1998 and early 1999 the opposite reasoning was made. The world is awash with oil. The Economist, always quick at capturing the spirit of the times, published an article under the title 'Drowning in Oil'. The analysts reminded us that non-Opec production has been rising every year, with two or three exceptions, since the early 1960s, if not before. They repeated ad nauseam that Opec was dead. And brandishing the ultimate scientific weapon, the law of marginal costs, they showed that the costs of extracting oil from the hands of a niggardly Nature, and from under very deep seas, were falling continuously. Prices must follow marginal costs. We are thus entering a long period of low oil prices.

My personal view is that neither the 1996 price rise, nor the 1998 collapse have much to do with a change in the structure of the world petroleum industry.

We are not yet threatened with a scarcity of oil resources. The view propagated by two eminent geologists – Messieurs Campbell and Laherre – that a peak in conventional oil production will be reached at around the year 2000 is far too pessimistic. Such a peak is unlikely to emerge before 2015 at the earliest. The view that 1996 was anticipating the entry of world oil in the era of geological scarcity has no merit.

But what about the price collapse of 1998? Have we really entered a long episode of low oil prices because of some sea change in cost structures, demand patterns, technology or in the role of Opec.

Low oil prices: we had them until as recently as two weeks ago, and we may see them obtain again on more than one occasion. But they have been, and in the future will be, caused by imbalances that inevitably arise in a market where nobody knows precisely what the current levels of actual supply and demand are.

Nothing fundamental has really changed in the structure of the industry. Opec often takes a long snooze but always wakes up when there is a price crisis and proves to a sceptical world that it is still alive and kicking. And indeed the producers got their act together last month.

Nothing fundamental has changed. Opec often takes a snooze but always wakes up when there is a price crisis

Costs have been falling for some time, albeit not in the downstream where tighter environmental specifications are burdening refiners. But oil prices have always held above the costs of the incremental barrel that would be needed to meet demand when all extent capacity is used. In oil it is price that determines the cost of the incremental development, not the marginal cost that determines prices. Oil companies ought to count their blessings that things are not the other way round.

The transformation of oil demand patterns is continuing on a trend which started 25 years ago: oil is being slowly displaced from non-transport uses almost everywhere in the world but is still maintaining a considerable growth potential in developing countries. To assume this potential to be irrelevant is to say that the third world and the NICs will never resume their economic development.

The threat to oil in the long run does not arise from the technology of production but from the technologies of use. One day the fuel cell car may displace the familiar internal combustion engine. The change may well take 20 years to obtain on a significant scale. In the very long run new fuels may lead the growth of energy consumption in the world. But not before 40 or 50 years from now.

Oil companies and many of their consultants talk about structural changes happening because they want something to occur. They would dearly like to re-enter the upstream sector in the Gulf countries and Mexico. The structural change that would then take place is the gradual displacement of the national oil companies by the multinationals.

I do not believe that such a change, if it occurs, would result in a dramatic shift in the balance between Opec and non-Opec production. The latter will continue to be privileged for security reasons. Should non-Opec areas be abandoned by some companies, they will inevitably attract those who did not manage to gain access to the Gulf. As mentioned above, and without apologies for repeating the same point, the shift will take oil away from publicly owned corporations and put it in the hands of private companies.

And this is not a zero-sum game. Oil-exporting countries and oil companies alike will lose in the longer run – simply because control over production will slip away and with it so will prices, government revenues and profits. More than once in the past, oil companies have begun digging their own graves. They may very well do it again if they fail to distinguish between cycles and trends, and more importantly to think through the long-term implications of their cherished strategies.

Robert Mabro is director of the Oxford Institute for Energy Studies

DANISH BANKING AND FINANCE

THURSDAY APRIL 15 1999

Annual report

Optimism after five years of steady growth

For all practical purposes, Denmark has become a shadow member of European economic and monetary union, report **Tim Burt** and **Clare MacCarthy**

The Danish economy should end the decade in much better shape than it began it.

It is likely to enter the new millennium with inflation under control, interest rates at the lowest levels for 60 years and one of the lowest unemployment rates in Europe.

In a transformation from the early 1990s, the country's Social Democrat-led government is expected to achieve a general budget surplus of about DKr30bn this year – equivalent to 2.5 per cent of gross domestic product.

"The performance has been extremely good," says Mogens Lykketoft, the finance minister. "Public finances have moved very fast from deficit to surplus."

Although the country has decided to abstain from the first wave of European economic and monetary union, Mr Lykketoft is quietly confident that it will continue to meet all the entry criteria – if and when Denmark decides to join the single currency.

"Denmark is in better shape for joining the euro than most of the countries that are inside already," he adds.

The government has reached that position after recording five years of steady but solid GDP growth. Buoyant domestic demand has underpinned manufacturing orders, compensating for slowing exports. Meanwhile, monetary policy has maintained a stable krone over a long period, contrasting with the currency volatility seen in neighbouring Sweden and Norway.

The government, however, has been forced to tighten fiscal policy to cool domestic demand and avoid industrial bottlenecks. Failure to do so risked fuelling inflationary pressures and prompting higher-than-average wage increases, in turn hurting Danish competitiveness.

Mr Lykketoft believes the fiscal tightening is starting to work: GDP growth is projected to slow this year to 1-1.5 per cent. Inflation has settled at just below 2 per cent and unemployment has sunk to about 6 per cent.

The relative economic calm contrasts sharply with the flux in the financial services industry.

Recent corporate activity in the sector suggests that Denmark has embarked on a second wave of consolidation, almost 10 years after the last big shake-out in the industry. (see page three). In 1990, the consolidation was triggered by excess capacity in the domestic market. That led – among other deals – to the creation of Den Danske Bank and Unibank, the country's two largest lenders.

After fully digesting those transactions, both banks have gone on the offensive in the past six months. Den Danske has acquired Fokus Bank of Norway, extending its retail presence outside its traditional market, while Unibank has agreed to acquire Danish insurer Trygg-Baltica.

Those deals follow the agreed merger last year between BG Bank, the third largest commercial bank, and Realkredit Danmark, the mortgage lender.

All that activity mirrors similar mergers and acquisitions elsewhere in the Nordic region, where large banks have begun to bolster market share and product portfolios by buying insurers and asset management groups.

That all seems logical. But the deals have not addressed the lingering problem of excess capacity – particularly acute in Denmark's fragmented financial services industry. There are quite simply too many branches, too many service providers chasing too few customers.

Most of the mergers so far have done little to address that problem. The deals have focused on combining complementary businesses, rather than aggressively cutting costs and building shareholder value.

All that could change if and when overseas banks start to take an interest in the Danish market. So far, there has been relatively little buying activity by foreign banks – most of whom have overlooked Denmark while establishing footholds in neighbouring Sweden or in eastern Europe.

Danish participation in European economic and monetary union could make the market more attractive to German or Dutch bankers, which might see opportunities for cross-selling of euro denominated products at relatively little additional cost.

Lykketoft, the finance minister: 'We are in better shape for joining the euro than most of the countries that are inside Emu already'

People's decision

First, however, Danish voters will have to vote in favour of joining Emu.

Denmark opted out of the single currency in a 1993 referendum and only another national referendum can reverse that decision. But while the government, opposition political parties and industry overwhelmingly support the country's accession, the electorate still hovers in indecision.

The successful launch of the euro in January this year helped nudge voter support for the euro above 50 per cent for the first time. But the initial enthusiasm has waned and an opinion poll conducted in the aftermath of the EU Commission's fraud and nepotism scandal sent voter support for the euro back down to 45 per cent.

Yet for all practical purposes, Denmark has become a shadow member of Emu. Last September, the government reached an agreement with the European Central Bank to keep the krone within a 2.25 per cent band either side of a central parity rate.

In practice, this means that monetary policy is largely dictated by maintaining the krone in that band. Although official interest rates have declined since the August currency crisis and the 10-year yield spread over German bunds has narrowed, economists are certain that Danish interest rates will remain higher than core Europe until such time as Denmark joins the euro. And without a seat on the ECB board, this in effect means that Denmark has no influence and is paying the price for it.

That has persuaded the Danish business community – not least the banks – to increase the pressure on government to bring forward the euro question.

But continuing public scepticism and poor opinion poll ratings for the Social Democrats make an imminent referendum highly unlikely.

The government, with only a fragile hold on parliament, would be even more reluctant to hold such a referendum if it risked becoming a national vote of confidence.

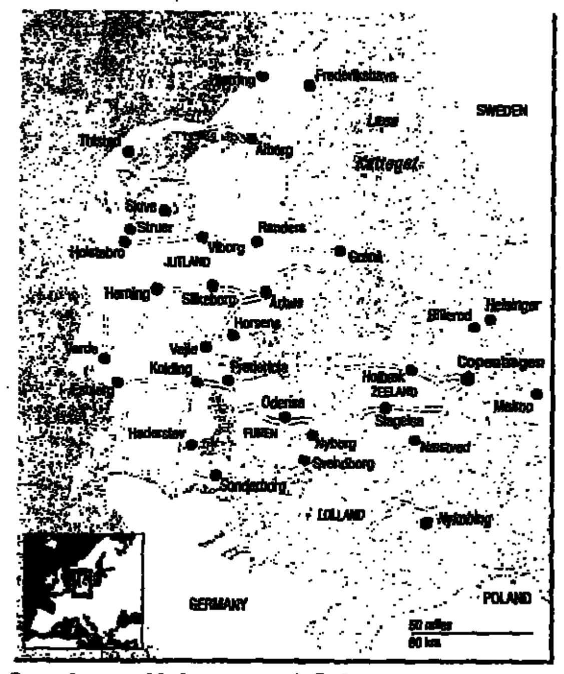
Its chances of securing a solid yes vote on the euro, moreover, could be further diminished if it embarked on the sort of structural reforms demanded by many Danish economists. Senior economists at the largest banks and employers organisations argue that much more work is needed to cut social benefits, address skills shortages and improve labour market flexibility.

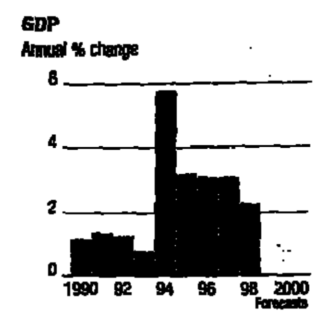
High taxation and over-generous welfare payments, they add, are threatening competitiveness. There is also some market nervousness that further interest rate cuts could prompt a new spurt in domestic demand, forcing the government into another fiscal tightening.

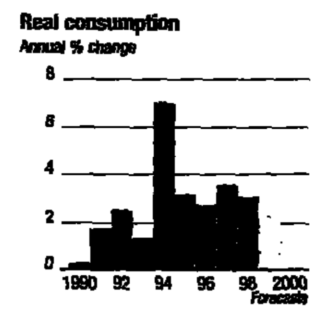
In that scenario, the profitability of Danish banks here could be hit by declining savings in the home market. That could force them to look to overseas mergers and acquisitions, if only to protect them from becoming takeover targets.

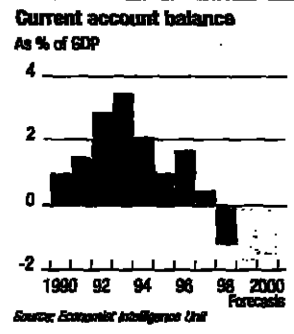
But Mr Lykketoft remains optimistic. "I think our policy is working as planned.

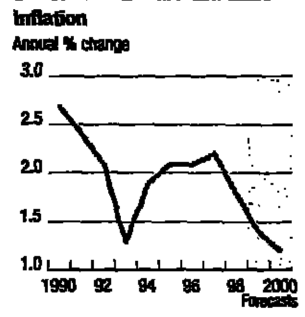
"Maybe something could be necessary later this year in the way of further fiscal tightening. But it is too early to say."

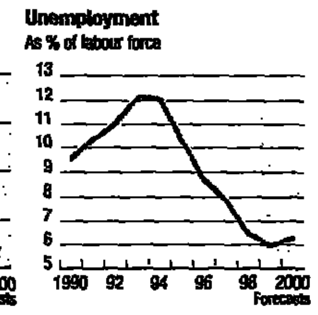












Source: Economist Intelligence Unit

THE ECONOMY by Tim Burt

Finance ministry embarks on delicate balancing act

If domestic demand and wage inflation is not sufficiently restrained, then further fiscal tightening may soon be needed

After reaching a comfortable cruising altitude over the past five years, the Danish economy has started on a gentle downward glide path.

Mogens Lykketoft, the country's finance minister, initiated the descent last year with an economic reform package designed to take the heat out of the economy. After seeing annual GDP growth reach 3 per cent since the mid-1990s, Mr Lykketoft last year deployed a fiscal tightening to cool domestic consumption and help ease bottlenecks in the manufacturing sector.

"Things were moving too fast on general consumption, we had to intervene," says the finance minister. "There was a requirement to stabilise real estate prices and take some of the steam out of the economy."

Speaking in his Copenhagen office, he claims that last year's so-called Whitsun package has begun to take effect. A combination of higher energy taxes and a big cut in mortgage interest relief helped slow GDP growth to 2.7 per cent in 1998. This year, GDP is projected to be no more than 1 per cent to 1.5 per cent. At the same time, unemployment has halved from 12 per cent to 6 per cent since 1993. Add in interest rates at historically low levels, inflation hovering just below 1.9 per cent and an estimated general government surplus of DKr30bn in 1999, and most of the leading Danish indicators point to an economy in rude health.

"We think everything is working as planned and we will have a better balance of payments this year than last," according to Mr Lykketoft, who also claims to have reduced Denmark's sky-high marginal tax rates while widening the tax base.

Certainly, there is much for the ruling Social Democrats to be pleased about.

But the finance ministry has embarked on a delicate balancing act. If its policies fail to restrain domestic demand and wage inflation sufficiently, it may be forced to consider a further fiscal tightening at the turn of the year or early in 2000. At worst, that could lead to a hard landing for the economy, a deepening current account deficit and rising unemployment.

If those trends coincided with a referendum on Danish participation in the European single currency, then a favourable result would be very uncertain. "The prospects for a hard landing are fairly slim, but I don't think we should be satisfied," says Klaus Rasmussen, senior

Turn to next page

Key figures for the Danish economy

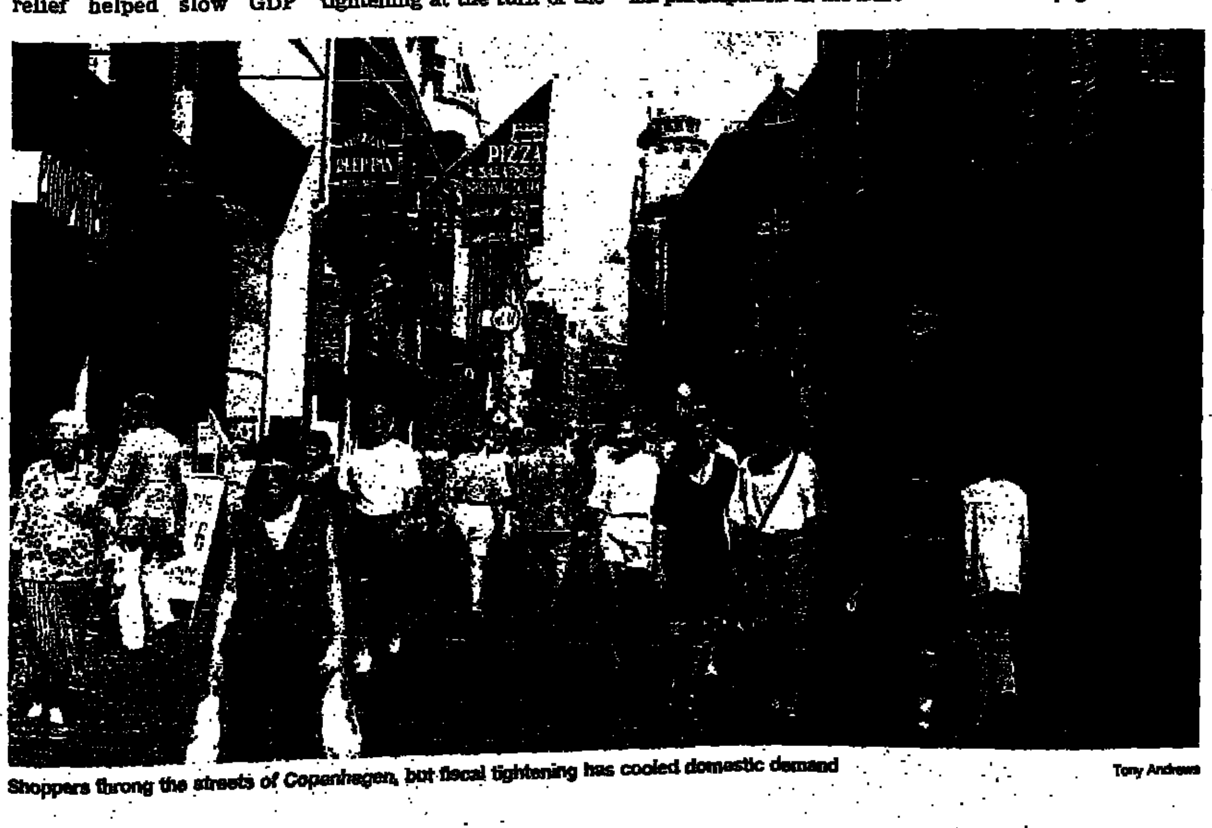
Real growth against the previous year (%)

	1994	95	96	97	98
Private consumption	7.1	3.3	2.7	3.6	3.1
Government demand	3.2	2.3	3.7	1.3	1.7
Business investments	7.2	15.9	4.1	12.0	9.2
Residential investments	0.1	3.2	5.0	8.8	1.3
Domestic demand excluding:					
stockbuilding	6.0	4.8	3.3	4.4	3.6
stockbuilding**	1.1	0.1	0.0	0.1	0.5
Domestic demand (total)	7.2	4.8	3.3	4.5	4.2
Exports	8.2	4.4	3.7	5.5	0.2
Imports	13.2	-0.9	3.7	9.8	3.7
Net exports**	-1.0	-1.6	0.1	-1.3	-1.3
GDP	5.8	3.8	3.3	3.1	2.6
Unemployment (% of the labour force)	12.2	10.3	8.7	7.8	6.5
Consumer price index (% growth)	2.0	2.1	2.1	2.2	1.9
Current account (% of GDP)	1.8	1.0	1.7	0.5	-1.4
General government balance (% of GDP)	-2.4	-2.3	-1.0	0.1	1.0
Private savings surplus (% of GDP)	4.2	3.3	2.7	0.4	-2.4

* Current-account surplus plus government-budget deficit

** Contribution to growth in GDP at constant prices

Source: Ministry of Finance



Shoppers throng the streets of Copenhagen, but fiscal tightening has cooled domestic demand

Tony Andrews

ATTITUDES TOWARDS THE EURO by Clare MacCarthy

EU scandal has upset the voters

Danish public opinion will not be convinced about Emu entry until a credible European Commission is in place

Danish voters have a peculiar habit of shunning the advice of their political masters – and recent developments with regard to the single currency are a case in point.

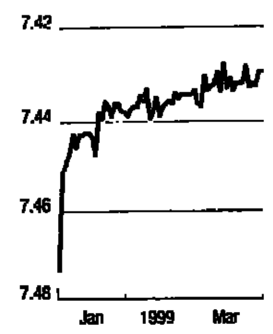
The overwhelming majority of established politicians and captains of industry which has long favoured Denmark's entry into the euro zone was joined last month by previously sceptical trade unionists.

An opinion poll of Denmark's largest trade union umbrella group revealing that 53 per cent of members would welcome their country's adoption of the euro, appeared to cement a growing conviction among observers that the smallest of the Scandinavian nations was tracking an irreversible path towards economic and monetary union.

But the fraud and nepotism scandal which toppled the EU Commission shot a spanner into the works, reversing an otherwise consistent trend of growing voter support for the euro.

An opinion poll published shortly after the Commission resigned revealed that popular support for the euro among Danes had slumped to 45.3 percent from 50.9 percent at the start of March, while opposition to the euro rose to 37.7 percent from 31.4 percent. Given that the government and most of the rest of parliament are solid euro supporters, a dip like this in public opinion should be of little consequence.

Danish krone
Against the euro (Dkr per €)



Source: Datastream/ICV

National referendum

But the fact is that Danes opted out of the third phase of Emu in a 1993 referendum and, no matter what the government wants and advises, this decision can only be reversed in another national referendum.

"Cronyism is apparently quite rife in European institutions, so Danish public opinion may remain opposed until such time as a credible Commission is in place," notes James McKay, chief European economist at the Commonwealth Bank of Australia in London.

His view was echoed by other analysts who fretted that while Denmark seems certain to enter the euro zone in the long run, upsets like this – particularly if the decline is sustained – could well delay the process and have negative implications for the economy in the interim.

In spite of Denmark's success last autumn in negotiating a deal with the European Central Bank, which provides some measure of security for the Danish krone by restricting its movements to a narrow band either side of a central parity rate against the euro, Denmark pulls negligible weight in Europe as long as it remains outside the single currency zone.

"Danes have the worst of both worlds in that they have no influence on monetary policy and they're paying the price for it," says Hans Christian Iversen of Deloitte Consulting Financial Services in London.

Though the government is reluctant to fix a firm date for Denmark's Emu referendum, pending a definitive swing to positive in the public mood, it has not wavered from its position that a referendum will eventually come and will be won.

Poul Nyrup Rasmussen, prime minister: in office since 1993

STOCK MARKET by Tim Burt

Danish traders look forward to Norex link-up in May

An alliance with Stockholm will lead to an increase in trading volumes and the creation of new brokerages

Recent statistics from the Danish stock market have been almost as grim as a wet winter day in Copenhagen.

Since the start of this year, the KFX index of top 20 stocks has achieved the dubious distinction of being one of the world's worst performing indices – falling almost 13 per cent. In February, the all-share index fell by 4.6 per cent and share turnover, at DKr31bn, was some 15 per cent lower than in the previous month.

For 1998, the performance was hardly scintillating. Although trading volumes rose by 45 per cent to a record DKr448bn, the all-share index fell by 5.6 per cent and the KFX index reported a modest 4 per cent gain. Given such a mixed performance, it is understandable that stock exchange officials and brokers are looking forward to May 14. In the middle of next month, Copenhagen will embark officially on a strategy designed to enhance liquidity and international interest in Danish stocks.

From that date, it will begin trading equities on the same system as Stockholm's much larger stock exchange as part of Norex – the Nordic Exchanges project.

The move follows almost two years of negotiations by the two bourses, which will in future trade equities on a common system – SAX 2000. In effect, the scheme will create "one market on the screen", allowing institutions with exposure to Stockholm to buy and sell Danish shares more easily with few extra costs.

Compared with the prospective London-Frankfurt stock exchange alliance, Norex will still be a minnow but it will be up and running at least three years before larger competitors begin pooling their trading activities. "We realised that it would be very difficult for a small exchange to survive if it did not link up with someone else," says Poul Erik Skaanning-Jorgensen, deputy director of the Copenhagen exchange.

He predicts that the alliance, in its first year, will lead to a further increase in trading volumes and will see at least 10 new brokerages starting to trade in Danish stocks via Stockholm. As the Swedish bourse attracts far more international interest, it is also hoped that the project will encourage new remote members from financial centres such as London and New York. Copenhagen is wooing such trading houses by promising to waive entrance fees.

So far, so good. But it is unclear whether the alliance in itself will reverse the recent sluggish performance of Danish stocks, even if volumes rise significantly.

Traders blame recent falls on portfolio changes by a number of large institutions. "They have decided they are overweight in their exposure to Danish shares and are beginning to diversify internationally. That means selling down Danish companies," according to one broker.

Volumes in Tele Danmark, the bourse's most heavily traded share, fell 23 per cent in February compared with the previous month, while turnover in banking stocks declined almost 5 per cent.

Christian Clausen, managing director of the stock exchange, says the bourse has also been affected by investors shifting away from smaller companies and the increased focus on leading stocks in euro-zone countries.

"It is a fairly big problem in the near term: it strengthens our view that the link with Stockholm is the perfect deal for us," he adds.

Officials in Copenhagen hope to extend that alliance by adopting the SAX 2000 trading system for bonds and derivatives. It is hoped this will lead to a harmonised Nordic market for different types of securities.

Given that the Helsinki stock exchange has decided to co-operate with the Deutsche Börse and Eurex instead, the hopes of creating a genuine pan-Nordic market will be difficult to achieve. Oslo has yet to decided whether to join Norex, and it will be some months before the Stockholm-Copenhagen marriage begins to show real benefits.

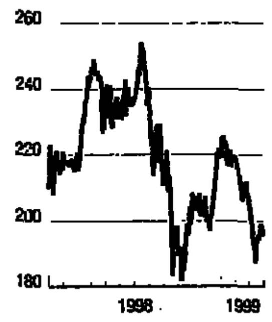
Nevertheless, Mr Skaanning-Jorgensen says: "We still believe strongly that if we stick together, we will survive."

Most traded domestic shares

	Turnover (Ecu m)	Total turnover (%)	Market value (Ecu m)	Total market value (%)	Turnover velocity	Price (DKK) & 4th Qtr. 1998	Change since end 1997
Tele Denmark	2,780.7	19.8	12,463.4	11.9	89.2	859.00	101.2
Novo Nordisk B	1,582.7	11.1	7,310.7	7.0	85.5	843.00	-14.3
Unidanmark A	326.5	5.9	3,620.6	3.5	91.3	578.00	13.6
Den Danske Bank	786.8	5.6	6,080.5	5.8	51.8	857.00	-6.2
Kapital Holding	738.1	5.2	2,747.5	2.6	107.2	315.00	-32.7
Danisco EM	713.4	5.1	2,804.3	2.7	101.8	348.00	-10.5
Ratin B	654.1	4.7	3,628.2	3.5	72.1	1,360.00	-
ISS-Int, Service system B	449.1	3.2	1,468.6	1.4	122.5	422.00	68.1
GN Store Nord	307.8	2.2	1,134.9	1.1	108.5	228.00	94.9
Sophus Berendsen B	218.5	1.6	589.3	0.6	148.2	221.00	-
Total	9,035.6	64.4	41,645.2	40.1	86.4	-	-

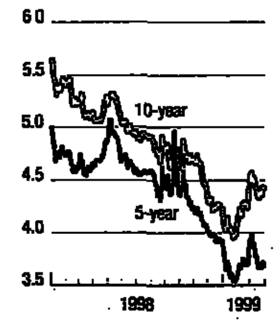
Source: Copenhagen Stock Exchange

Danish equities
Copenhagen KFX index



Source: Datastream/ICV

Danish bonds
Benchmark yields (%)



Source: Datastream/ICV

Novo Nordisk, the Danish biotechnology company, is attracting the attention of US and European investors. Pictured here are researchers in advanced protein chemistry and molecular modelling. More than 1,900 scientists at Novo Nordisk collaborate on research worldwide

ECONOMIC PROSPECTS

Confidence that state budgets are in check

From previous page:

economist at the Confederation of Danish Industries. "We cannot reduce unemployment further without changing labour market rules."

Along with most Danish economists, Mr Rasmussen is complimentary about the government's short-term handling of the economy. But he and others claim that it has failed to really grasp the structural reforms required over the longer term.

In a country of generous social benefits and slowing employment growth, the challenge is to contain public spending – particularly given the ageing population and shortage of skilled labour in some parts of the economy.

Christian Clausen, head of Unibank markets, says: "Structural changes that need to take place are not being tackled. Tax rates are still too high and it is hitting the competitiveness of Danish industry."

While domestic demand has been rampant, that has not been too much of a problem. But in a period of slowing demand, it may be difficult to secure export growth for an industry labouring under wage agreements ahead of most other countries and high tax costs.

To be fair, the government has already begun to reform unemployment benefits and modify early retirement policies. But many economists want to see more radical reform, something that a minority Social Democrat administration will find hard to deliver without alienating its traditional left-of-centre supporters.

Mr Lykketoft maintains that the government has demonstrated its reforming credentials by agreeing to cut corporation tax from 34 to 32 per cent, with a target of matching Sweden's 28 per cent band over the medium term. It has also cut top rates of income tax.

But Jorgen Birger Christensen, chief economist at Den Danske Bank, believes the government's room for manoeuvre has been greatly reduced by Denmark's decision to link the krone to the euro through ERM-2.

"Monetary policy has been displaced to Frankfurt, with the euro replacing the D-mark," he adds.

"The current account deficit has risen because we are drawing in imports and exporters are still concentrating on domestic demand.

"For industry, above-average wage increases have caused an average loss of market share of 2 per cent," he says.

And while interest rates are low, they remain about 40 basis points above the ECB repo rate. If that leads to an inflow of foreign currency, the Nationalbank could be forced to cut interest rates, threatening to spur domestic consumption again.

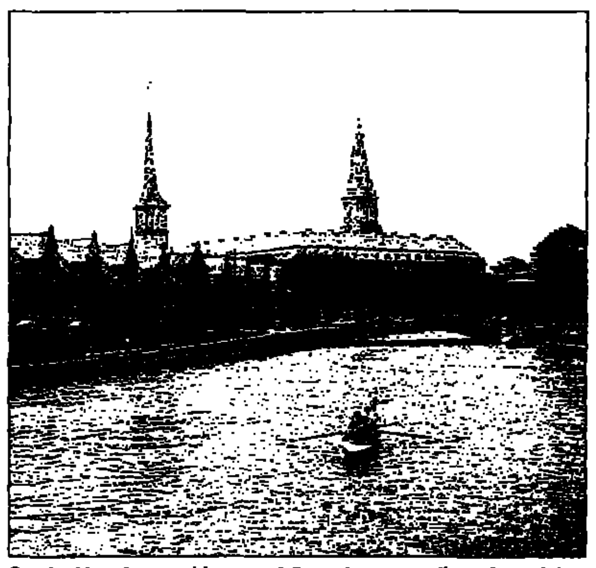
Mr Lykketoft says he recognises the challenges but is rather relaxed about the economic outlook.

In spite of slowing growth, he does not expect unemployment and therefore benefit claims to rise markedly.

Moreover, the finance minister says state budgets are in check and is optimistic that exports to Denmark's main trading partners – Germany, Scandinavia and the UK – will pick up. He is also unfazed by the constraints imposed by ERM-2, pointing out that Denmark has endured a fixed exchange rate policy for more than 5 years.

"Denmark is in better shape for joining the euro than most of the countries already inside," he says.

"I see no reason for a recession in this part of the world. The management of economic policy has been rather wise."



Overlooking the canal in central Copenhagen are the spires of the old stock exchange, built by King Christian IV between 1619 and 1640. The exchange has now moved to premises in Nikolaj Plads – see addresses of business institutions, page four

PROFILE
BODIL NYBOE ANDERSEN

Clever lady with unswerving determination

As governor of Denmark's central bank, Nyboe Andersen wins applause all round in maintaining exchange rate stability

Bodil Nyboe Andersen is hardly a familiar name to those outside the tight circles of the financial and the central banking world, but as a frequent nominee on lists of the world's most powerful women, the governor of Denmark's central bank is a force to be reckoned with.

In addition to the fact that since the departure of Finland's Sirkka Hamalainen to a post on the executive board of the ECB, she is now the European Union's only female central bank governor, Ms Nyboe Andersen appears a rarity in public life in that criticisms of herself and her policies are uncommon and praise is profuse.

"She's a most impressive woman. Very, very clever and she's doing a formidable job for the country and the central bank," says Mr Lykketoft, the finance minister.

His positive appraisal is echoed by others canvassed for this profile and the list of adjectives grew to include experienced, capable, unpretentious and affable.

The recurring theme being that Ms Nyboe Andersen has acquitted herself with above-average skill since she came to the job in 1995. "I wouldn't go as far as saying that she bears sole responsibility for maintaining credibility in the Danish currency, but the determined way she manages monetary policy provides much of the explanation behind its stability," says a leading London economist.

The central bank's core policy objective of maintaining exchange rate stability was put to the test on two occasions last year. In the spring, market worries about the outcome of Denmark's referendum on the Maastricht Treaty triggered negative sentiment for the krone.

In the early autumn, a renewed bout of pressure occurred when international investors, worried by the spectre of a global economic meltdown, started switching out of peripheral markets such as Scandinavia and into perceived safe havens such as the US. At both times, markets felt the lady's mettle.

Nyboe Andersen: a force to be reckoned with

The governor dipped and dipped again into Denmark's foreign currency reserves to buy up and prop up a flagging krone. When this proved insufficient, she raised interest rates. The net result of her unswerving determination was a stable krone and market players' conviction that launching speculative attacks on the Danish currency is a fool's game.

The job of central bank governor is not one for which there is a fixed career path. The position tends to be offered to the person who is in the right place at the right time with the right qualifications. On her previous work credentials alone, Ms Nyboe Andersen fits the bill to a tee. Having started her working life as assistant principal in the economy ministry, she moved into academia, spending a dozen years as professor of monetary policy and economics at Copenhagen University. A nine-year stint in the private sector culminated with a post as group managing director of Unibank before her appointment as a member of the board of governors of the central bank in 1990 and thence the grovernor's job five years later.

Clare MacCarthy

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BANKING SECTOR by Tim Burt

Big institutions buy up their smaller rivals

As profits rise, the larger banks seek an increased share of the market, leading to a fresh wave of consolidation

Almost a decade after the last big consolidation wave in Danish banking, the country's leading lenders have embarked on a second round of mergers and acquisitions.

But unlike 1990 – when six banks combined to create Den Danske Bank and Unibank, Denmark's two largest financial services groups – the latest restructuring is not a symptom of a crisis-hit sector. Nor does it represent a rescue effort.

Quite the reverse; big Danish banks are exploiting strong balance sheets to buy up smaller rivals – both in neighbouring countries and neighbouring industries such as insurance and asset management.

Earlier this year that motive persuaded Unidanmark, Unibank's parent, to announce a merger with Tryg-Baltica, Denmark's leading non-life insurer.

The enlarged group, boasting a market capitalisation of DKr34bn and DKr250bn of assets, is expected to become the seventh largest financial institution in the Nordic region.

A similar thirst for increased market share and a broader portfolio led to the merger last year between mortgage bank Realkredit Danmark and BG Bank, the third largest commercial bank, to create another new banking giant.

That deal was followed by Den Danske Bank's NKr5.8bn agreed takeover of Fokus Bank, Norway's fourth largest lender – a move that frustrated a rival offer for Fokus from Sweden's Handelsbanken.

The choice appears to be stark. Given the dominance of Denmark's largest banks in their traditional markets, they can keep growing either by diversifying into new areas or by bolt-on acquisitions in other countries.

That strategy has the triple benefit of sharply increasing their customer base, enabling cross-selling of products to new savers and borrowers and making the enlarged banks less vulnerable to takeover themselves.

All that activity has given the financial services industry an hour glass profile. Denmark, like Sweden, has a super-league of large banks offering a broad range of products. But there are almost no medium-size institutions between those big lenders and the hundred or so small regional banks.

In order to survive, these smaller banks charge higher interest rates than larger rivals, often relying on customer loyalty and mortgage bond business to sustain them.

"They are too fragmented and it is difficult to see how they can survive over the long term," according to one industry analyst.

They do so, in large part, because the effort required to integrate them does not promise sufficient synergy benefits or scale to attract larger banks.

Senior bankers see better growth prospects abroad than at home

So Denmark's big banks are looking elsewhere for acquisition opportunities. In reality, only three or four lenders have the financial muscle to contemplate big cross-border mergers, notably Den Danske Bank (DDB), Unibank and BG Bank.

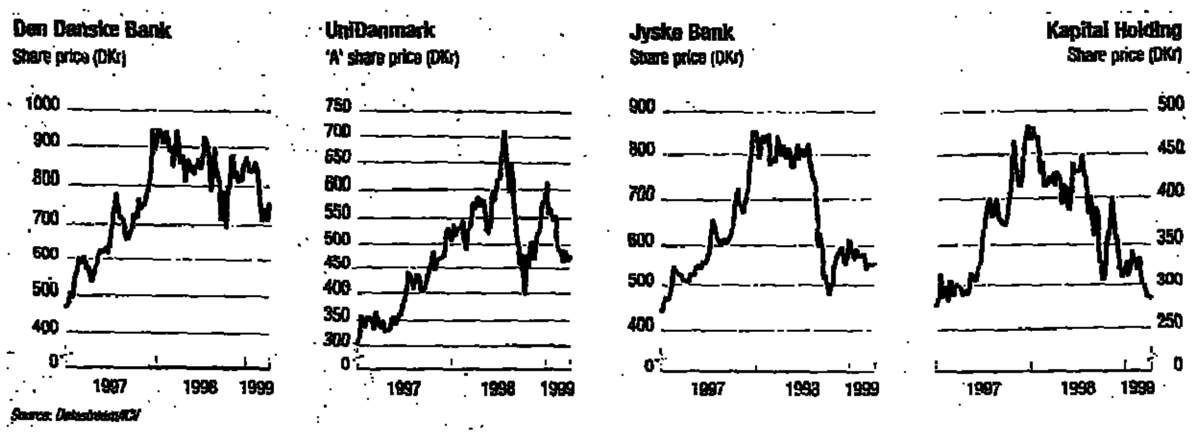
The challenge for these banks is to initiate and carry through deals rather than become prey themselves. Lenders such as MeritaNordbanken, the Finnish-Swedish combine, and Handelsbanken would dearly love to buy a big presence in the Danish market. And DDB or Unibank – together commanding more than 50 per cent of the retail market – would make attractive brides.

Moreover, it may be only a matter of time before predators to the south, such as ABN Amro of the Netherlands or Deutsche Bank, switch their acquisition radar towards Scandinavia, where they have already established investment banking operations.

"I don't think the deals we have seen are enough to protect the big banks from takeover," says one Den Danske banker, declining to be named.

Although Danish lenders have worked hard to improve their cost base and promote new products, they could become vulnerable if there is a hard landing in the economy that undermines profitability and share prices. Already, several banks have warned that the slowing domestic economy could lead to a fall in core earnings and higher bad debt provisions this year.

Certainly, it is doubtful that banks such as Jyske Bank and Den Danske will repeat the growth seen in 1998, when annual profits rose by 20 and 24 per cent respectively.



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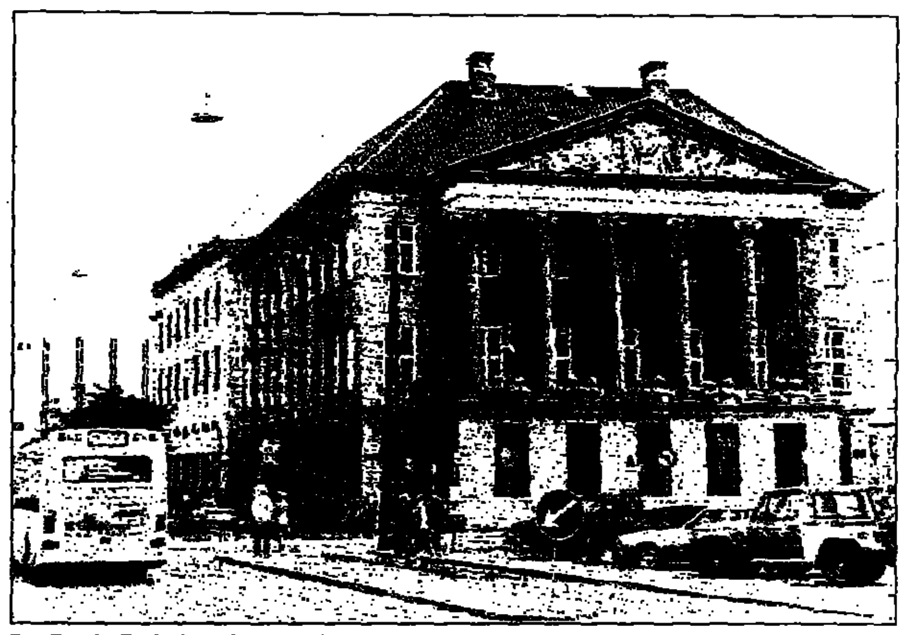

Den Danske Bank, Copenhagen: looking for acquisitions Tony Andrews

Against a background of slowing profit growth, investors may begin to question just how much Danish banks are managed with shareholder value in mind.

Few of the country's lenders, for example, provide investors or analysts with a detailed breakdown of their divisional profits or liabilities.

"There is simply no pressure from shareholders to explain different trading performances in areas like investment banking or asset management," says one analyst in Copenhagen.

That is partly explained by the absence of large overseas shareholders in the Danish financial services industry. But if one of the large banks faced an unsolicited bid, it might have to change those practices quite quickly and demonstrate just where profits are generated.

Given the intense competition in retail banking and mortgage lending in particular, such a breakdown might demonstrate that profit margins and return on assets are pretty thin for many banks. In turn, that might prove something of a poison pill for acquisitive international banks.

As a rationale for a bid, a large market share in Denmark might be less attractive than, say, buying a Polish bank. A presence in Denmark would deliver a mature customer base. An acquisition further east, on the other hand, could provide a more lucrative platform for capturing part of an undeveloped market.

Senior Danish bankers recognise that, too. They see better growth prospects overseas that at home, persuading them to pursue deals in Norway and Sweden.

"The trigger for further bank restructuring is to develop a Nordic strategy rather than an exclusively Danish one," says Christian Clausen, head of Unibank markets. "From our perspective, we have just seen the beginning of Nordic consolidation."

CASE STUDY
JYSKE BANK

Strongly committed to staying independent

A decentralised decision-making structure and customer-friendly approach are key strengths for the advisory bank

At a time when mergers, acquisitions and other sorts of alliances are raging through the Nordic banking scene as if there was no alternative, Denmark's fourth largest bank, Jyske Bank, is confidently independent.

"We are committed to maintaining our independence and have no immediate intentions of growing through a merger," says Per Munkholm Poulsen, assistant managing director.

The reasons behind this unashamedly independent stand are several. "The primary one is that no report of analysis has yet been published which documents a clear correlation between size and the ability to earn money," explains Mr Munkholm Poulsen. And while never saying 'never' is inadvisable in any business, including banking, Jyske says it will not entertain any link-up in which it is not the continuing company.

Jyske Bank has, of course, been there before: itself the result of a merger between four regional banks in the Jutland area back in 1967, Jyske stayed aloof from the 1989 merger wave which streamlined a chronically overbanked Danish banking sector leading ultimately to the present structure of three very large banks, dozens of small banks – and Jyske.

Since then, Jyske has carved out a solid niche for itself as Denmark's fourth largest bank. Its solvency ratio of 10.4 per cent at the end of last year was both above average and the statutory minimum; Moody's has upgraded its credit ratings and analysts regard its performance in boosting 1998 core earnings by 66 per cent to Dkr1.06bn as more than usually satisfactory.

Jyske's ability to survive and thrive in an environment dominated by much bigger players has been helped by a canny marketing strategy of playing on its differences and presenting itself as a refreshing alternative.

Promoting itself as an advisory bank, it claims its decentralised decision-marking structure and customer-friendly approach are key strengths and not at all the norm in Danish banking. And while it prides itself on its ability to provide a full range of financial products and services (either in-house or out-sourced), analysts view its expertise in niche areas such as private banking as additional and valuable assets. Private banking has always been a niche business. Jyske has been exploiting this facility for 30 years, so that now some 25 per cent of bank income is generated from private banking.


Anders Dam, Jyske Bank's chief executive: emphasising expertise in niche markets

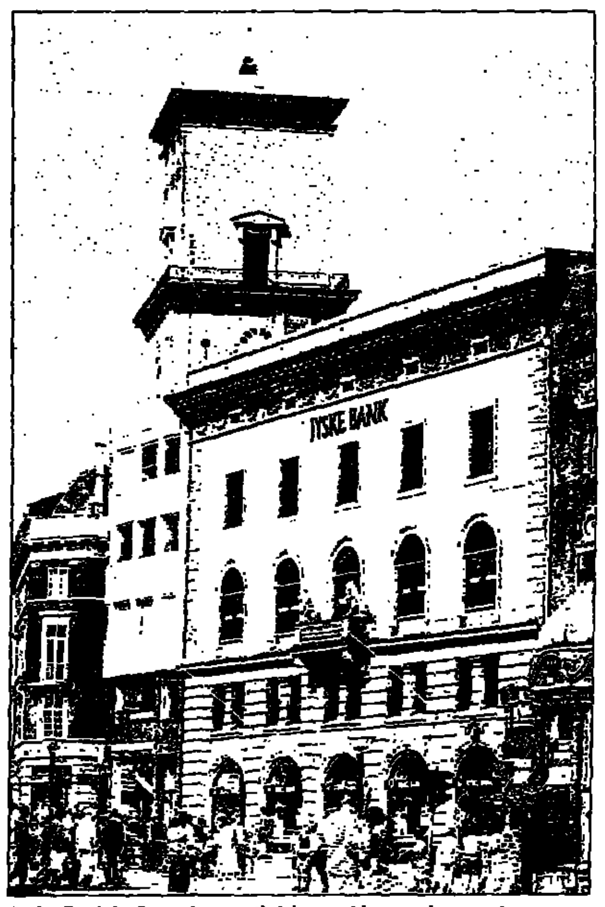
Asset management services for private individuals are a rapidly expanding area worldwide and attracting some of the estimated $20 trillion which high-net-worth-individuals (HNWIs) have at their combined disposal globally is an attractive target for any financial institution.

Jyske serves its slice of the global clientele from bases in Gibraltar, Zurich, Hamburg, London and Fuengirola and Denmark. But in this sector, too, Jyske has its own way of doing things. While traditional private bankers would not accept a client with less than $1m in assets, Jyske defines a private banking client as someone with DKr500,000 and above to invest.

"Our way of doing business is friendlier than how it is done in the UK," claims Jens Skov, head of international marketing at Jyske.

In practice, this means that clients are serviced on an individual basis by their own personal account manager, as opposed to the small army of anonymous client managers, which is often the case at the megabanks – proof, it would seem, that size isn't everything.

Clare MacCarthy



Jyske Bank in Copenhagen: thriving amid an environment dominated by much larger institutions Tony Andrews

CASE STUDY
UNIDANMARK

Merger aims to exploit economies of scale

The new Unidanmark group will control assets of Dkr524bn and account for about 27 per cent of domestic bank lending

Insurance companies offer a service which society cannot do without, argued Hugo Andersen, chief executive of Tryg-Baltica, the insurance group, in an interview with the FT last year. Not so the banks, he said, whose services can be duplicated by other organisations, such as supermarkets, to name but one competitor.

But Mr Andersen and Tryg-Baltica's supervisory board have nevertheless chosen to throw in the company's lot with Unidanmark, the country's second-largest banking group. The sales channel provided by the nationwide branch network of Unibank (the operational subsidiary of Unidanmark, a holding company) was an offer which Tryg-Baltica decided it could not turn down when the two financial service companies discussed their future.

Thus, on March 10, the two announced a Dkr10bn merger plan, and it is a near-certainty that the merger will be completed, although the crucial meetings of shareholders had not taken place at the time of writing.

"Unibank's branch offices provide access to a wider distribution network, thus offering significant opportunities for selling non-life insurance, as well as life and pension products," said Mr Andersen.

Thorleif Krarup, Unidanmark's chief executive, said: "With our complementary strengths, the merger provides a unique opportunity to create a strong combination based on a concept of decentralised customer service, while maintaining the ability to exploit economies of scale."

The new Unidanmark group will control assets of Dkr524bn (as of the end of 1998). It will account for about 27 per cent of domestic bank lending, 21 per cent of the general insurance market, nine per cent of the life and pension market, and 15 per cent of new mortgage lending.

The two companies claim in the merger prospectus that the merger will yield benefits on the bottom line of Dkr450 a year within three to four years, of which Dkr300m will arise from cost-savings – and Dkr150m from increased business, easily justifying the merger costs, which are put at Dkr375m.

The merger will be implemented by an exchange of paper which will leave Unidanmark's shareholders with 74 per cent of the capital and Tryg-Baltica's with 26 per cent. The terms are far from generous for Tryg-Baltica's shareholders.

The merger offer to Tryg-Baltica's shareholders is Dkr180 per share, which values Tryg-Baltica at about 96 per cent of book value. The relatively modest offer caused Codan, the listed Danish insurance company controlled by Royal & Sun Alliance, to make a counter-offer of Dkr200 per share on March 30. This was rejected by Tryg-Baltica, in which 75 per cent of the voting capital is controlled by Tryg-Baltica's policyholders through Tryg-Baltica S.a.m.b.a., a kind of co-operative company. This is the successor organisation to the policyholders who owned Tryg-Baltica before it was de-mutualised.

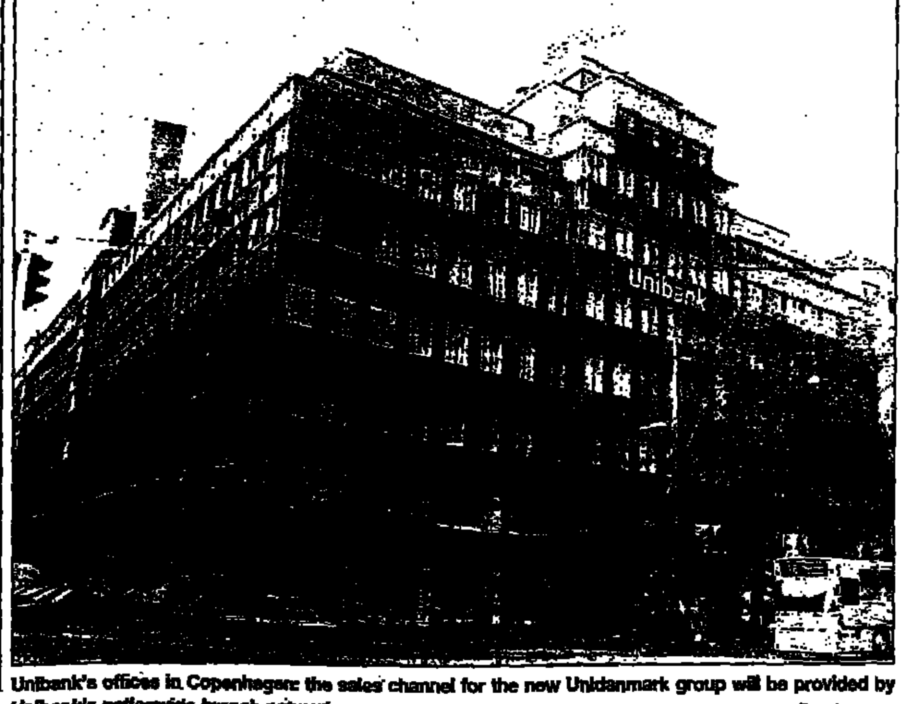
Tryg-Baltica S.a.m.b.a. is unlikely to be deflected from its determination to proceed with the merger with Unidanmark, which, as Mr Hugo Andersen says, is seen to be "in the long-term interests of shareholders, customers and employees". Shareholders in both companies are being encouraged by the proposal of an extraordinary dividend, which will increase the dividend per share in Unidanmark from DKr17 to 32 and in Tryg-Baltica from DKr6 to 12.

Unidanmark also plans a Dkr1bn share buy-back programme over the coming year if the merger goes through. Unofficial matchmakers, in Copenhagen and elsewhere, were for long excited by the idea that either BG Bank or Unidanmark would become the object of a Nordic cross-border merger or buy-out, but it was not to be.

BG Bank merged with domestic mortgage bank Realkredit Danmark last year under the umbrella of Kapital Holding. Unidanmark is in the process of a bank-assurance tie-up. However, Unidanmark is among the large Nordic financial service groups which regard the Nordic region as one market.

It already has significant position in Nordic investment banking, portfolio management and as a trader in shares, bonds and derivatives. The merger will place Unidanmark is a position to participate in any further consolidation of the Danish market and in the ongoing structural changes in the Nordic financial services industry, according to the merger prospectus.

Hilary Barnes


Unibank's offices in Copenhagen: the sales channel for the new Unidanmark group will be provided by Unibank's nationwide branch network Tony Andrews

SHIPPING FINANCE by Clare MacCarthy

Industry has remained determindly prudent

New rules allow Danish Ship Finance (DSF) to move into syndication, thus spreading risks on selected loans

"High risk, low return," is the most frequently quoted phrase used to describe the rarefied business of shipping finance – the myriad failures which the industry has suffered in the last three years appears to prove the maxim.

Adverse events such as the economic crisis in Asia and the former Soviet Union, freak weather conditions and plunging freight rates have hit global shipping hard, triggering loan defaults by shipowners which, in turn, shipwrecked a fleet of shipping finance banks.

The total number of banks worldwide operating in the area dropped to below 150 last year from almost 200 in 1997. And although the declining number of finance providers is no precise measure of lending capacity, analysts agree the trend is clear – liquidity in the ship financing market is tightening and will continue to shrink during 1999.

The economic crisis in the Far East and Russia caused problems both for the ship owners with regional exposure and their lenders, including junk bond investors.

European shipping financiers, by contrast, generally charted a safer and more conservative lending approach, and the deep traditions for this type of business, particularly in northern Europe, helped shield these financiers from the worst of the storms.

Danish Ship Finance (DSF), an independent financial institution providing long-term credit for ship finance, is a case in point. "We're a very conservative financial institution with a high solvency ratio," says Bo Jagd, DSF managing director. While Danish banks have a minimum capital adequacy requirement of 8 per cent for any type of lending, including ship finance, DSF's is set at 10 per cent but, in fact, it has consistently exceeded the minimum and the solvency ratio was up as high as 20.3 per cent at the end of last year.

The company, Mr Jagd adds, also has a very conservative policy on loan-loss provisions. Falls in tonnage values during 1998 necessitated a 112 percent increase in provisions for bad and doubtful debts to Dkr424.4m from Dkr199.9m in 1997, a development which reflected the general troubles of the shipping industry, but also evidenced DSF's determinedly prudent approach.

Assessing the provisions requirement is a continuous process and all vessels in which DSF has a mortgage are valued by specialised independent brokers at least twice a year.

With a total loan portfolio of around DKr36bn, DSF is one of the biggest operations in Europe devoted purely to shipping finance. It dominates shipping finance in Denmark with a domestic market share for financing newbuildings in excess of 80 per cent.

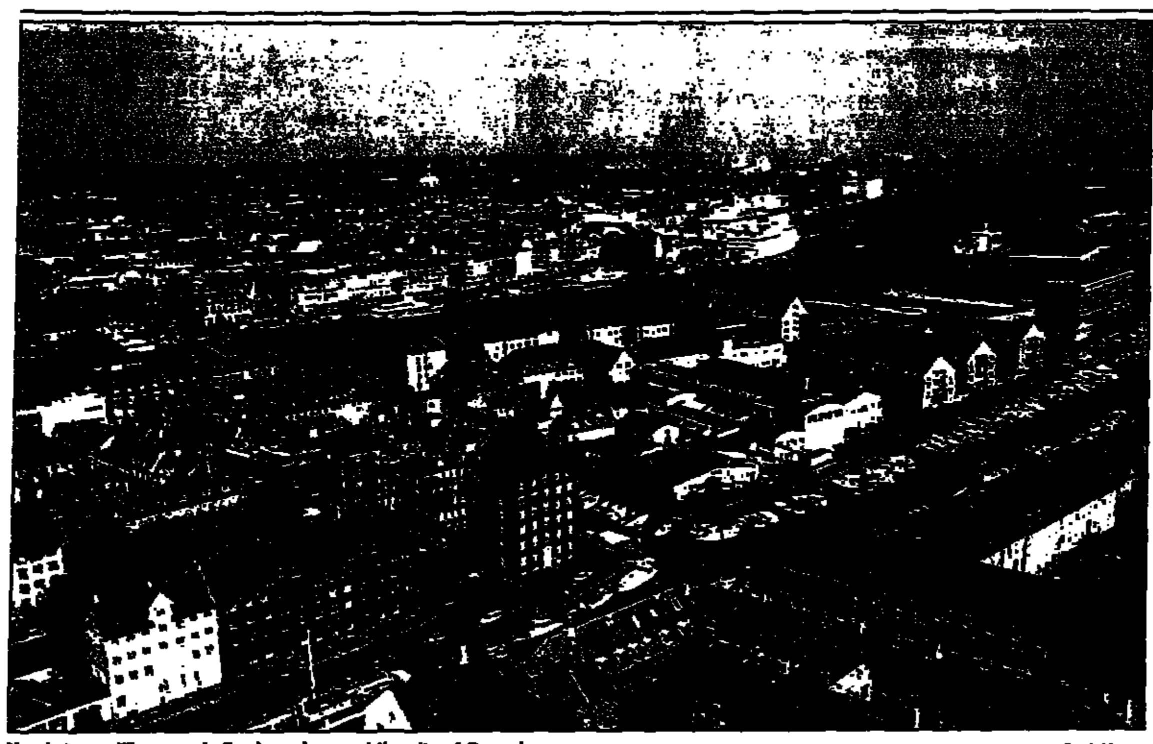
"Our *raison d'etre* is the maritime industry in Denmark," says Mr Jagd. That said, the company is becoming an increasingly active player in the international arena in order to spread the risk in its portfolio. "In theory, there's no geographical limitation to what we do," the managing director says.

Last year, DSF acquired a 5 per cent stake in the Swiss-based Viking Ship Finance with a view to expanding its role in the international ship finance market.

Recent Danish legislative amendments and a subsequent adjustment of DSF's own by-laws have extended the scope of its operational framework, facilitating a tripling of loan offers in terms of value, quantity and the number of vessels involved.

The altered regulatory environment has also allowed DSF to move into syndication, thereby spreading the risk on selected loans among several players. According to the new Danish rules, at least 10 per cent of all new loans must be syndicated, a development which analysts regard as yet another safety-net for what is already one of the world's most reliable operators in the business of financing shipping.

A ferry near the 11-mile Great Belt Bridge, linking the islands of Zealand and Funen AP



Nearly two million people live in and around the city of Copenhagen Sarah Murray

KEY FACTS

Information for business visitors

☐ **Language:** Danish, a close relative of Norwegian and Swedish. Danes are highly proficient in foreign languages. English is very widely spoken and many people can get by in German and French, as well as the *other Scandinavian languages.*

☐ **Form of government:** a single chamber parliament (the Folketing) with 179 seats. The present government is a two-party minority coalition betweenthe Social Democrats and the Social Liberals. Prime Minister Poul Nyrup Rasmussen has been in office since 1993.

Denmark is a constitutional monarchy. Queen Margrethe II has reigned since 1972.

☐ **Population:** 5.3m in Denmark. Copenhagen and its environs: 1.9m. Faroe Islands: 44,000. Greenland: 56,000.

☐ **Geography:** The southernmost of the Nordic countries, Denmark lies between 54 and 58 of latitude north and 8 and *15 of longitude east. Land* area: 43,000 sq km.

In addition to Denmark itself, the kingdom also includes the Faroe Islands in the North Atlantic (1,400 sq km) and Greenland, the world's largest island (2,186,000 sq km).

☐ **Currency:** Danish krone, (Dkr). One krone equals 100 ore.

Key business and investment addresses

Denmark has embassies or consulates in more than 90 countries and the commercial departments are rich sources of information and advice for *foreign investors and* businessmen.

☐ *The promotion of inward* investment in Denmark is co-ordinated by the Invest in Denmark Office, under the Ministry of Business and Industry: Slotsholmsgade 10-12, DK-1216 Copenhagen K; tel: (+45) 33 92 33 50; web site: www.investdk.com

☐ Another agency, Copenhagen Capacity, *provides investment services* specific to the Copenhagen region: Copenhagen Capacity, Kongens Nytorv 6, DK-1050, Copenhagen K, tel: (+45) 3333 0333; web site: www.copcap.dk

☐ Danish Bankers' Association: Finansraadets *Hus, Amaliegade 7, DK-1256,* Copenhagen K; tel: (+45) 33120200; web site www.finansraadet.dk

☐ Copenhagen Stock Exchange: Nikolaj Plads 6,DK-1007 Copenhagen K; tel: (+45) 3393 3366; web site www.xcse.dk

☐ Ministry of the Economy: Ved Stranden 8, DK-1061 Copenhagen K. tel: (+45) 3392 3322, web site www.oem.dk

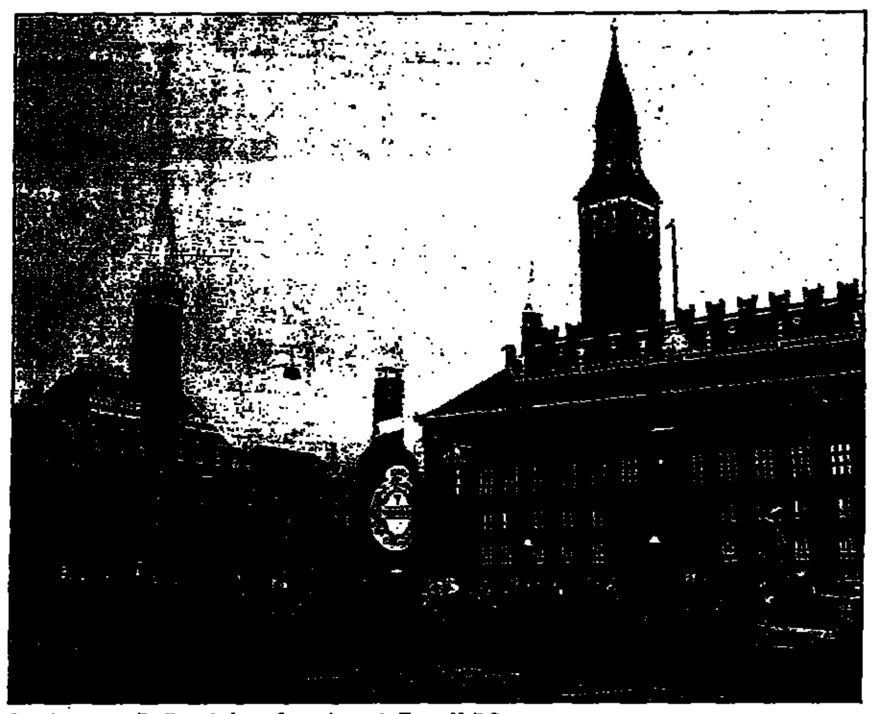
☐ Commerce and Companies Agency: Kampmannsgade 1, *DK-1780, Copenhagen V; tel:* (+45) 33 30 77 00; web site www.eogs.dk

☐ Competition Council: Norregade *49, DK-1165* Copenhagen K; tel: (+45) 33 *93 90 00; web site www.ks.dk*

☐ Patent Office: Helgeshoj *Alle 81, DK-2630 Taastrup;* tel: (+45) 43 50 8000; web site *www.dkpto.dk*

☐ Danish Agency for *Development* of Trade and Industry: Tagensvej 137, DK-2200 Copenhagen N; tel: (+45) 35 86 86 86; web site www.efs.dk

☐ Danish Chamber of Commerce: Borsen, DK-1217 Copenhagen; tel: (+45) 33 9505 00.



Popular venue: Radhuspladsen, Copenhagen's Town Hall Square

Tourists at a cashpoint in Copenhagen Tony Andrews

MORTGAGE BONDS by Clare MacCarthy

As safe as houses

Danish mortgage bonds are a secure bet *in that default is virtually unthinkable*

The fact that Danish home purchases are almost entirely financed via mortgage bonds makes the country into one of the world's top ten bond issuers.

Denmark's mortgage-backed bonds are issued by mortgage credit institutions which pool mortgages carrying the same coupon into a *single bond series and place* them on the open market.

*But while Danes are famil*iar and comfortable with the *system, educating foreign* investors about the product and persuading them of its merits is rather an uphill struggle.

"In contrast to government securities, of which non-residents have held around 30 per cent to 40 per cent in recent years, non-resident investors do not play a dominant role in the mortgage-credit market," says the Danish central bank in a recent monetary review.

Investors' qualms about the fact that most Danish mortgage bonds are callable means foreigners tend to stick with what they know – government bonds.

"Being able to distinguish between *government* bonds and mortgage bonds is easy *for Danes, but not for foreigners,*" says Hans Christian Iversen *of Deloitte Con*sulting Financial Services in *London.*

The market value of all bonds on the Danish market at the end of 1998 was DKr2,009bn of which around 60 per cent were mortgage bonds.

But in spite of the fact that the Danish mortgage bond market is very large and liquid, and can offer a most attractive yield pick-up over sovereign debt in Europe, only an estimated 12 per cent to 15 per cent of the total in circulation at the end of March was owned by foreign investors.But seen in the perspective that this is more than twice the level of foreign ownership one year ago, this is a respectable advance.

Furthermore, analysts say the move by several mortgage credit institutions to seek and obtain good credit ratings from international agencies, should spark more buying by overseas investors.

Notwithstanding the call *option (which entitles the* borrower to buy back his *remaining debt at par, usu*ally as a result of a fall in interest rates), Danish *mort*gage bonds are a secure bet in that default is virtually unthinkable.

"They're as safe as houses. Danish mortgage institutions are too big to fail and even if they did, the government would have to step in so everyone assumes the bonds have tacit government backing," says Frank Velling, head of fixed income at Carnegie Bank in Copenhagen.

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COMPANIES & MARKETS
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INSIDE

Time Warner posts $138m net profit
Time Warner rebounded from a $62m loss in the first quarter of last year to a net profit of $138m this time, beating analysts' forecasts. Earnings per share, after preferred dividends, were 10 cents compared with a deficit of 12 cents, in what management described as an "exceptionally strong" quarter. Page 20

Airline struggles to remain airborne

Philippine Airlines, Asia's oldest commercial airline, bounced back from a brief official closure last September but still faces challenges to stay in the skies. In the next 48 days the receivers must find $200m for a cash infusion, hold off creditors and resolve a conflict between management and Lucio Tan (pictured), the Filipino-Chinese controlling shareholder. Page 18

Japanese retailer braced for pain
Ito-Yokado, the leading Japanese retailer, has seen its net profits fall for two consecutive years and is bracing itself for more pain. But the company, the seventh largest retailer in the world in terms of market, is the best-positioned group to weather Japan's recession. Page 19

India to restrict imports of sugar
India, the world's largest producer and consumer of sugar, intends to restrict further imports of sugar this season because traders have already signed contracts to import more than 2.2m tonnes. Commodities, Page 26

Chinese bank plans $500m bond
China Development Bank, the main channel of government funding for the Three Gorges dam, plans to launch a $500m global bond next month. It will be the first Chinese financial institution to issue a global bond since the outbreak of the Asian crisis in mid-1997. Page 24

Television sets enter internet age
Customers for PowerChannel's innovative free internet service do not need a PC, only a television set for their "freePCTV" set-top box. It is a milestone in the PC's development: the value of the software and hardware is now much less than that of the services they deliver. Page 20

Hungary stock market lacks bite

Budapest equities this year have been in the doldrums: the benchmark Bux index is 17.5 per cent lighter in dollar terms, earning it the title of poorest performing European market. But the government of Viktor Orban (left) insists no emergency measures are needed. The index closed yesterday at 5,642.22, up on the day but still almost 40 per cent short of last April's all-time high. Emerging Market Focus, Page 36

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MARKET STATISTICS

Mannesmann in new media push

German group moves further away from industrial origins

By Ralph Atkins in Düsseldorf

Mannesmann, the German industrial group, which is one of Europe's strongest telecoms operators, yesterday announced a push into new media services and internet commerce as it all but abandons the steel tubes business on which it was originally founded.

The Düsseldorf-based group, which supports Olivetti in its bid for Telecom Italia, the Italian telecoms giant, said it was looking seriously at a possible bid for One-2-One, the UK's fourth biggest mobile phone operator.

However, Mannesmann's shares dropped almost 6 per cent yesterday to €126.12 ahead of a possible capital increase and on an initial statement on the first quarter of 1999. It reported profit on ordinary activities on par with the same period a year before.

Presenting details of 1998's results, Joachim Funk, the outgoing chairman, said Mannesmann wanted to take advantage of any chance offered in telecoms that fitted the group's strategy.

Mannesmann is considering a possible capital increase, perhaps worth €2.5bn following expansion in Italy and a €2bn bond issue in May.

Mannesmann recently acquired the o.tel.o fixed line telecoms business of the Veba and RWE industrial conglomerates, which is likely to cost more than DM3bn (£1.04bn, $1.65bn) including restructuring costs. It is also set to take over Olivetti's stakes in Omnitel and Infostrada, the Italian mobile and fixed line businesses – assuming Olivetti wins its bid for Telecom Italia.

Other financing requirements include paying AT&T to exit its Arcor fixed-line operator. AT&T is linked with British Telecommunications, which runs a rival telecoms operation in Germany.

Mannesmann's push into new media businesses would exploit the success of its D2 mobile network, Germany's largest, and Arcor's strong position in the newly liberalised fixed line market.

Klaus Esser, vice-chairman, said the convergence of communication businesses "is so important and such a high priority that anything else would not make sense".

New businesses could include E-commerce, entertainment or news services. Although Mr Esser suggested Mannesmann could take steps under its own steam, partnerships with other groups seemed more likely. Mannesmann already has a link with Yahoo!, the US internet group.

Mr Esser, who succeeds Mr Funk as chairman on May 28, played down suggestions Mannesmann would become a "pure telecoms" group.

Its engineering and automotive parts divisions had increased their return on assets last year to 11.3 per cent and 11.7 per cent respectively – bringing them closer to Mannesmann's 15 per cent target set for 2000.

However, the tubes division, around which Mannesmann was founded in 1890, is unlikely to achieve that goal and is likely to see a substantial scaling back. Mannesmann has seen substantial divestments under a restructuring programme begun in mid-1995.

Bell moves nearer to dissolving link with AirTouch

By Richard Waters in New York

Bell Atlantic yesterday took another step towards dissolving its partnership with AirTouch, as it revealed it would abandon a wireless communications joint venture between the two US companies.

The move is likely to increase the pressure on UK-based Vodafone to invest to build its own nation-wide wireless network in the US once its $62bn purchase of AirTouch is completed.

In a regulatory filing, Bell Atlantic said that it intends to exercise its option to dissolve PrimeCo, a company that it set up with AirTouch to operate a wireless network in parts of the country where neither side had a presence.

The alliance never developed far beyond PrimeCo and relations between the two sides have cooled since Vodafone capped Bell Atlantic's own takeover bid for AirTouch earlier this year.

PrimeCo has about 1m customers and a network that covers 41m potential subscribers in the Midwestern and Southeastern parts of the country, making it the second-biggest so-called PCS carrier in the US. The PCS companies, led by Sprint PCS, represent the first generation of digital wireless carriers in the US and were created after the Federal auction of wireless licences in the early 1990s.

Based on the price of recent acquisitions, wireless companies sell for as much as $85 for each potential customer covered by their network, said Mark Lowenstein, a senior vice-president at the Yankee Group, a telecom consultancy. While PrimeCo's networks reach 41m people, its licences cover a potential population of 60m in all.

If the joint venture is disbanded, PrimeCo's assets will be divided equally between its owners, the two sides said.

Bell Atlantic, meanwhile, is set to extend its own wireless network into parts of AirTouch's territory through its pending acquisition of GTE. Its broader partnership agreement with AirTouch forbids such competition but Bell Atlantic has started a legal action to have that agreement torn up.

Lex, Page 16

BG-led group takes over Comgás

By John Barham in São Paulo and Robert Corzine in London

The Brazilian state of São Paulo yesterday sold its controlling stake in Comgás, the state gas company, to a consortium formed by BG, the UK gas pipeline operator, and Royal Dutch/Shell for R$1.65bn ($1bn), a premium of 119 per cent over the minimum price.

Officials said the successful sale indicated a recovery in investor confidence in Brazil after it was forced to devalue its currency, the Real, by 39 per cent in January.

Julio Lapa, Comgás's president, said: "I think it shows confidence in the country. It is the first [privatisation] auction since the devaluation in January, which frightened many people. As we see now, the climate is not catastrophic."

BG and Shell beat three other international consortia, including one led by Enron of the US, which offered a premium of 70 per cent.

BG has a 95 per cent stake in the winning group. Shell's existing 15.6 per cent stake in Comgás will be incorporated into the consortium.

Stephen Brandon, a senior BG executive, said the high premium was justified "because we can see a lot more value in Comgás than the other bidders".

The privatisation of Comgás, which serves Brazil's industrial heartland, comes two months before the first deliveries of gas into the São Paulo region from the new 3,200km Bolivia-to-Brazil pipeline.

The surge in gas supplies is expected to release pent-up demand for gas, mainly for industrial use and power generation. The Brazilian government has set a target for a fivefold increase in gas usage over the next 10 years.

New gas-fired co-generation power plants being built in the state will be the principal new customers for Comgás. Although demand for power is rising steadily, Brazil has exhausted nearly all of its hydroelectric generating capacity.

BG and Shell also intend to promote the use of natural gas-powered vehicles as an anti-pollution measure in the state.

Mr Brandon said future investment in Comgás's network would come from cash flow rather than from fresh foreign investment.

He said concerns about an uncertain regulatory environment in the state had been clarified in meetings with Brazilian officials. The outlook for the first five year regulatory period was stable, he said. The consortium has received assurances that during the second five-year period it will be able to pass on to consumers any gas price increases, as well as local inflation.

Bankers at J.P. Morgan and Dresdner Kleinwort Benson, the merchant banks that advised BG and Shell, expect the new management at Comgás to return the company to profit by increasing sales volumes and reducing operating costs. They say Comgás, which lost the equivalent of $1.2m last year, should post profits of $10m in 1999, rising to $38m in 2000.

The deal is a significant addition to BG's asset portfolio in the Southern Cone. It has a controlling interest in Metro-Gas in Buenos Aires, stakes in two regional gas pipelines and exploration acreage.

Spanish offer tops Duke Energy bid for Endesa Chile

By Mark Mulligan in Santiago and Tom Burns in Madrid

Duke Energy of the US was last night considering its next move in the battle for control of Endesa Chile, Latin America's second largest electricity generator, after a counter-bid by Grupo Endesa of Spain.

The Spanish company late on Tuesday announced a $1.5bn offer for 29.7 per cent of the Chilean group through Enersis, the electricity distributor it controls. Enersis already holds 25.3 per cent of the generator. Rodolfo Martin Villa, chairman of Grupo Endesa, is set to become chairman of Enersis.

The Spanish offer, which was higher than expected, tops Duke's $2.1bn bid for 51 per cent by 22 per cent.

Duke Energy International yesterday said it was considering a range of options, but Bruce Williamson, chief executive, has indicated the company would raise its offer in the event of a contest.

This latest battle in Chile's electricity sector follows the $830m acquisition on Tuesday of most of the energy assets of Chilquinta, the utilities holding company, by a US consortium of Sempra Energy of San Diego and New Jersey-based Public Service Enterprise Group (PSEG).

The Santiago stock market has been alive with speculation about foreign bids for Gener, the country's second largest generator, and for other electricity companies.

Activity in the sector, which accounts for more than half the main IPSA index, has helped drive the market up nearly 25 per cent since the beginning of the year.

Thomas R. Smith, president of PSEG Americas, said Chile's mature regulatory framework and investment grade ratings had made it the battle ground for international groups looking for a bridgehead into the region.

"Chile was privatised first," he said. "What we're seeing now is the second wave in Chile and in Argentina and the first wave is not yet completed in Brazil."

Grupo Endesa and Duke Energy cited Brazil's energy sell-off this year as a reason for their determined push into Latin America through Chile.

Sandra Boente, Latin Americas utilities analyst at Salomon Smith Barney in New York, said the Spanish group's determination to control Enersis and Endesa Chile reflected the influence of the Chilean groups in the region.

"Whoever ends up buying Endesa Chile – and if it is Grupo Endesa, it already has Enersis – owns prime electricity assets in just about every market in Latin America."

However, analysts yesterday warned that the Spanish group's aggressive 305 peso a share bid for its Chilean namesake, representing a 27 per cent premium over Tuesday's closing price, would saddle it with additional debt that would make further expansion in the region difficult.

The company has already invested more than $2.7bn in its 18-month battle for control of Enersis, Latin America's largest electricity distributor.

"Endesa has taken on a very heavy debt burden which will certainly have a negative effect on its ratings," said Nicolas Fernandez of Ibersecurities, the Madrid brokerage.

Joining the fray: Grupo Endesa chairman Rodolfo Martin Villa

Coke agrees deal with Cadbury on Australian brands

By John Willman in London and Gwen Robinson in Sydney

Cadbury Schweppes and Coca-Cola yesterday released details of an exchange of soft drinks brands in Australia following the competition regulator's veto of the sale of the UK group's beverage business in the country to Coke.

The exchange will allow the US group to acquire Dr Pepper, Schweppes and Canada Dry, Cadbury's three top international drinks, in Australia in return for a package of Coke's local brands. Cadbury will remain in the soft drinks business in the Australian market as a competitor to Coke.

However, the UK group expects to sell this Australian business "in time", as it quits the soft drinks business outside the US. Possible buyers include PepsiCo, which is number three in Australia, and venture capitalists backing the management, with the possibility of an initial public offering.

The new arrangement is expected to be approved by the Australian Competition and Consumer Commission. "It is tailor-made to take into account the regulator's concerns," said the two companies.

The announcement reinforced their determination to complete a deal, agreed in December, for the US group to pay $1.85bn to acquire Cadbury's soft drinks interests outside the US.

Regulators were expected to oppose the acquisition in countries such as Australia where Coke is already dominant in soft drinks. But the companies are prepared to adjust the agreement to overcome objections and still expect to complete the deal before the end of the year.

"There will be other plan Bs around the place like this," said David Lang, food and drink analysts at Investec Henderson Crosthwaite in London. "The deal won't fall down just because it can't get the go-ahead in a few countries."

The deal involves merging the drinks interests of the two companies in more than 120 companies, though regulatory approval is needed in fewer than 20. It has already been approved in Ireland, Finland, Norway, Poland and Slovakia.

A veto is not expected in the UK, despite the protests of some competitors, since the two companies already distribute their drinks through a single organisation, Coca-Cola Schweppes Beverages. But there are unconfirmed reports that it is likely to be blocked in Germany and Mexico.

The Australian compromise, which Cadbury says will have no material impact on the price, will leave the UK group in the soft drinks business in that country. Its Schweppes Cottee subsidiary will retain several minor brands such as Sunkist and Oasis and add Coke's local brands which include Kirks, Halls and Shelleys.

This company will still be the second largest in the country's soft drinks market, meeting the regulator's objection to the original deal that it would leave insufficient competition for Coca-Cola.

Investor group launches cost-cutting revamp

By Tim Burt in Stockholm

Investor, the main holding company for Sweden's Wallenberg business empire, yesterday announced a wide-ranging restructuring to cut costs, increase its exposure to start-up companies and reduce its trading discounts to net asset value.

The investment vehicle, which has controlling stakes in companies accounting for almost 40 per cent of the Stockholm stock exchange, told shareholders it would lift its exposure to high-growth companies and private equity investments from 5 to 15 per cent of its total portfolio.

It also vowed to reduce overheads and impose new performance criteria for core holdings, which include famous names such as Electrolux, the world's largest household goods manufacturer, and Ericsson, the telecommunications group.

The overhaul was unveiled by Marcus Wallenberg – the nephew of family patriarch Peter Wallenberg – who yesterday took over as Investor's new chief executive.

Mr Wallenberg, succeeding veteran chief executive Claes Dahlbäck, also appeared to signal a softening in Investor's commitment to long-term shareholder control of large companies.

"Ownership must not get in the way of alliances, mergers and restructuring," he said. In the past year Investor has overseen the merger of Swedish paper maker Stora with Finnish rival Enso; sold 35 per cent of Saab Aerospace to British Aerospace; and agreed to merge Astra, the pharmaceuticals group, with Zeneca of the UK.

Even so, it has continued to trade at a discount of almost 30 per cent to net asset values.

The discount has widened from 12 per cent in the middle of last year, reflecting market concern over Investor's share portfolio – which includes modest performers such as SAS, the airline, and Gambro, the medical technology group.

Announcing first-quarter figures yesterday, the company also said its total return in the 12 months to March 31 had declined by 12 per cent. The Stockholm stock exchange produced a total return of 1.4 per cent in the same period.

In the first three months of this year, however, the value of Investor's core holdings increased by 13 per cent to SKr100.6bn ($12.16bn). That growth was flattered by a sharp increase in the share price at Scania, the truckmaker at the centre of bid speculation, and strong demand for Astra. Together, Astra and Scania account for 45 per cent of Investor's share portfolio.

Investor's most commonly traded B shares rose SKr10 to SKr393.50.

Doubled profits strengthen Scania

By Tim Burt

Scania, the Swedish heavy truck manufacturer being stalked by Volvo, sought to underline its financial strength yesterday by bringing forward results showing a doubling in first-quarter profits.

The Investor-controlled company said pre-tax profits jumped to SKr1.11bn ($134m) *in the first three months, compared with SKr552m in the same period of 1998.*

Truck and bus deliveries rose 11 per cent to 12,910, while Scania's sales increased 13 per cent to SKr11.8bn. The figures benefited from strong growth in the European truck market, which analysts expect to be sustained throughout 1999.

Volvo, by comparison, is expected next week to unveil pre-exceptional first-quarter profits of SKr1.5bn-SKr1.6bn.

Scania and Investor have rebuffed Volvo's approaches *over a possible takeover or* co-operation agreement, claiming the Swedish automotive group has undervalued Scania's growth prospects and future profitability.

Although Volvo has acquired almost 13 per cent of Scania, talks between the two have been abandoned following a failure to agree on a price.

Yesterday, Claes Dahlbäck, the outgoing chief executive of Investor, said: "Scania's report for the fir*stquarter strengthens our* opinion that Scania is a strong company with excellent opportunities for continued positive development through its own efforts."

But he reiterated that Investor was considering alternatives for the future of Scania, including possible co-operation or mergers.

Volkswagen of Germany and Fiat of Italy have been touted as alternative partners to Volvo.

Leif Ostling, Scania chief *executive, is due to meet* Ferdinand Piëch, VW's chairman, next week at a board meeting of Svenska Volkswagen, the two companies' Swedish distribution joint venture.

Mr Ostling has made clear he would prefer a complementary alliance with a partner such as VW rather than a takeover by Volvo, which would lead to larger overlap in heavy trucks.

Scania's most commonly traded B shares rose SKr3.50 *yesterday to SKr227.50.*

Gucci, LVMH to discuss new offer

By Alice Rawsthorn

Senior executives of Gucci, the embattled Italian fashion group, are expected to meet their opposite numbers from LVMH, the French luxury goods group, today to discuss significant changes in the latter's $8.7bn offer.

Gucci's board last week rejected an LVMH offer of $85 a share, claiming its conditions were unacceptable. It also dismissed an alternative offer of $91 conditional on Gucci rescinding its recent $3bn share issue to Pinault-Printemps-Redoute, the French retail group.

LVMH, which had refused to make a full bid for Gucci until manoeuvred into doing so by the secretly-negotiated Pinault deal, said it would await the outcome of a Dutch court case starting *next Thursday before making its next move.*

However, Pierre Godé, senior adviser to Bernard Arnault, LVMH chairman, wrote to Gucci's supervisory board on Monday revising the terms of its $85-a-share offer. It is now understood to be offering to exercise joint control of Gucci with PPR.

If LVMH's new offer is accepted by more than 50 per cent of the independent shareholders (who hold 38.6 per cent of Gucci) it wants enough new shares to be issued to match PPR's 42 per cent stake, rather than *to take it to 50.1 per cent as* in its initial offer. LVMH *already owns 19.6 per cent of* Gucci.

LVMH also requested the right to nominate the same number of board representatives as PPR, and to have the same veto rights. It also asked for an undertaking that Tom Ford, Gucci's chief designer, would remain in his post for at least two years.

Mr Ford, credited with masterminding Gucci's creative revival, is believed to hold unexercised options for over 2m Gucci shares (worth $170m under LVMH's $85 offer) and to be entitled to a "golden parachute" of $20m if he leaves the group after a change of control.

Domenico De Sole, Gucci *president, is understood to* have written to the LVMH board on Tuesday suggesting their representatives met in Paris *today or tomorrow.*

He is thought to have declined to comment on the revised offer until it had been submitted to Gucci but to have indicated it may be impracticable.

BANKS PARIBAS, SG WORK ON TIMETABLE

BNP targets prepare for long battle

By George Graham, Robert Graham and Samer Iskandar in Paris

Paribas and Société Générale, the French banks whose merger plans were thrown off course by last month's double-barrelled bid from rival Banque Nationale de Paris, *are digging in for a* battle that could last as long as six months.

André Lévy-Lang, Paribas chief executive, said: "We don't want to frighten people, but we are organising ourselves for it to last six months, and I believe we are capable of lasting that long."

The takeover clock started ticking when BNP's all-share offers for the two banks were authorised by the *Commission des Opérations de* Bourse, the stock market watchdog, on March 31. However, the process has been held up by a law suit filed by SG and Paribas, that might not be resolved before the end of June.

The timetable could be extended still further if SG were to raise its bid for Paribas or BNP were to improve the terms on either of its offers. The official responses of the SG and Paribas boards to the bids were approved for publication yesterday by the COB. BNP's board is to meet tomorrow for the first time since the offer was launched last month.

*SG and Paribas could has*ten a resolution to the three-way battle by withdrawing their suits, which challenge the regulators' decision to allow BNP's double bids. Because the offers are simultaneous, *Paribas shareholders* would have to make their minds up without knowing whether BNP had *won control of SG.*

Mr Lévy-Lang said he would wait *to see if the* stock market authorities set *an adjusted bid timetable, with different deadlines for the two offers, before decid*ing whether to withdraw the suit.

He insisted that the efforts of Michel Pébereau, BNP chairman, to force SG and Paribas to negotiate a deal had failed.

"There has been a blitzkrieg, saying 'you must discuss, you must discuss'. Well, that has failed. It has failed because we are in a position to say we have a clear project *which makes better sense.*"

Daniel Bouton, SG chairman, said BNP had already succeeded in one respect: it had delayed the SG-Paribas merger, which should have been completed a week ago. However, he said BNP's plans were largely negative.

"What is happening fundamentally is that SG Paribas has put BNP in a corner. I thought BNP was strong, could develop on its own and wait to find a marriage partner. Evidently BNP thinks it is weak," he said.

Mr Lévy-Lang said SG and Paribas had been in contact *with a number of foreign* banks since they announced their merger plans in February.

However, he insisted these were simply institutions that wanted to work with the new group, not rescue it from BNP's clutches.

Peugeot cool on prospects of merger

Jean-Martin Folz, chairman of the French group, says it is unlikely to join the rush to the altar

By David Owen in Paris

What now for France's other carmaker? Renault's tie-up with Nissan has changed the landscape for Peugeot-Citroën, *destroying the sym*metry of a situation in which the country's two carmakers had similar sales and, hence, market share.

It has also, predictably, intensified speculation that Peugeot-Citroën will, sooner or later, need to find a partner of its own.

"Peugeot does look the most strategically challenged of the European manufacturers," says John Lawson, analyst with Salomon Smith Barney. "In volume cars, size is important."

Interviewed yesterday in Paris, however, Jean-Martin *Folz, Peugeot-Citroën chair*man, left the clear impres*sion his group was unlikely* to join the recent rush to the altar any time soon.

"We have looked around us at the different options. There are not as many as all that. We have reached the conclusion that the options open to us presented more drawbacks than advantages for Peugeot-Citroën."

At the same time, he emphasised that the group had nothing against mergers and acquisitions in principle and would continue to look.

"We are the product of a merger and an acquisition," he said, adding: "We think *that merging two companies* only makes sense if you can *create value. We believe* very strongly that in the car business, the only way to create value is to make more cars on the same platforms."

By this logic, he suggested, *any thought of a* link-up with Volvo, the *Swedish carmaker recently* bought by Ford, would have *made little sense.*

"We are in different technological and architectural universes," he said. "The possibilities for doing things in common between Volvo and Peugeot-Citroën are very weak in the short- and medium-term."

The French company, which sold 2.28m units in 1998, is aiming to lift output to 3m within five years, and to build 2.5m of them on just three platforms.

*"I clearly prefer this situa*tion to making 4m or 5m cars on 25 or 30 platforms." Mr Folz said. "I do not *believe the quest for size* in the absolute is an impor*tant criterion in the car* industry."

But what if bigger competitors were able to match or exceed *Peugeot-Citroën's* performance in terms of output per platform, while *also* manufacturing more *vehicles in total?*

According to Prof Garel Rhys, *director of the Centre* for Automotive Industry Research at Cardiff University Business School: "Lean production was never a substitute for volume."

"Even if going from production of 2m to 4m only reduces a company's unit cost by, say, 6 per cent, margins are so tight that if it passes this cost advantage on to customers, a rival of similar efficiency producing 2m units a year could not make any money." Prof Rhys added.

*Mr Folz, by contrast, indi*cated that even if a rival *managed to build, say, 5m to* 6m cars on three platforms, *he did not believe the differ*ence in its costs would be significant when set against other elements such as capacity to adapt and commercial agility.

"I do not see our size as a major strategic handicap," *he said. "And I observe fur*thermore that our organisation, our speed of reaction, our product range give us an important asset compared with groups that are, perhaps some of them, too big."

Most analysts seem to agree that there are drawbacks associated with all the companies most often cited as possible partners for Peugeot-Citroën.

There are thought to be few signs that Honda – "the obvious partner", according to Keith Hayes, analyst with Goldman Sachs – is interested in an alliance.

BMW has its hands full with Rover. Any tie-up with *Fiat, one of the companies* with which the French *group has co-operation pro*jects, would probably demand politically sensitive European job losses to be value-enhancing.

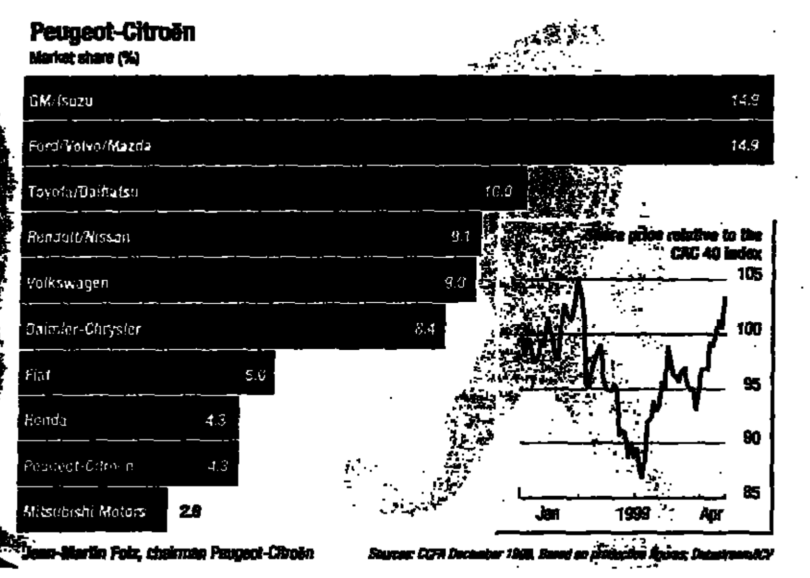
Mr Folz described co-operation projects with other independent manufacturers as a very *promising* avenue.

There is a consensus *too* that, with background trends so far working in Peugeot-Citroën's favour this year, the company is under little immediate pressure.

"Peugeot will have an excellent 1999," said Sabine Blümel, analyst with IMI in London. "They have to make the most of it."

Many observers equally expect, however, that in the long term the company will become part of a bigger group. "For the next couple of years they are fine, as *long as they are* well managed," said Greg Melich of Morgan Stanley. "*If you are* talking about 20 years, they *probably will be part of a* larger group."

Jean-Martin Folz, chairman Peugeot-Citroën



PAL's new flight plan faces heavy weather

Success of the Philippine carrier's *proposed revival strategy is by no* means assured, reports **Tony Tassell**

Nearly six months after its first death and resurrection, the fate of *Philippine Airlines still* hangs in the balance.

Asia's oldest commercial airline bounced back from a brief official closure last September but is still facing formidable challenges to stay in the skies under a proposed revival plan.

The Philippine financial authorities are poised to extend the deadline for the plan – originally scheduled for today – but over the next 48 days, the receivers to the carrier will have to find a $200m cash infusion, fend off aggrieved creditors and resolve a power struggle between management and the controlling shareholder, Lucio Tan, the Filipino-Chinese tycoon.

It is a demanding agenda but Peter Foster, chief company adviser to the airline recently recruited from Cathay Pacific, remains confident. "We always knew it was going to be a long and arduous road but we remain hopeful we can resolve this to the benefit of the airline," he said.

The key challenge will be to secure $200m in cash by a June 4 deadline. Without it, the airline is unlikely to survive. Before its official closure in September following a labour dispute, PAL had incurred steep lossesas a result of a litany of problems.

These included a $2.2bn debt burden, falling demand *for air travel, the slide in* Asian currencies against the dollar, massive overstaffing, a 22-day pilots' strike and an over-ambitious fleet expansion just before the regional economic crisis struck.

In the nine months to December, the airline lost almost a $1m every day, leaving it with an excess of liabilities over assets of more than 5bn pesos ($130m) at the end of December.

Despite the airline's continuing problems, Mr Foster says there has been interest from potential investors although he declines to identify them. He says, however, they include local and foreign institutional investors.

"The equity search continues and we are making progress," he says of the cash infusion, which will account for 90 per cent of the airline's equity.

Mr Foster said once the revival plan was accepted, the airline would be producing positive cash flow.

Apart from a severe debt restructuring, the new plan also calls for the sale of non-core assets, the relocation of operations to a new terminal in Manila, the downsizing of the fleet and new marketing alliances with international airlines.

The carrier appears to have one fallback option for the cash injection – Mr Tan. A close associate of the late dictator Ferdinand Marcos and one of the most politically influential businessmen in the Philippines, Mr Tan has agreed to provide the $200m if no other investor can be found, according to government officials.

This may raise its own problems because of ongoing tensions between Mr Tan and the new management advisory team led by Mr Foster. People close to PAL indicate Mr Tan has recently been trying to remove the team from power.

The enigmatic and usually media-shy Mr Tan has declined to confirm or deny such reports.

If he provided the cash injection, the tycoon would control nearly 95 per cent of the equity of PAL and would be expected to attempt to replace the management team.

This in turn could alienate some creditors who expressed opposition to an earlier revival plan before the new team was recruited because of the management influence of Mr Tan.

John Gibbs, manager of the recoveries division of the UK government's Export Credit Guarantee Department, says there is clearly a "power play going on between existing and potential investors".

Although PAL's receivers claim the support of two-thirds of its creditors, including the US Export-Import Bank and various European export credit agencies, the list of opposing creditors is mounting.

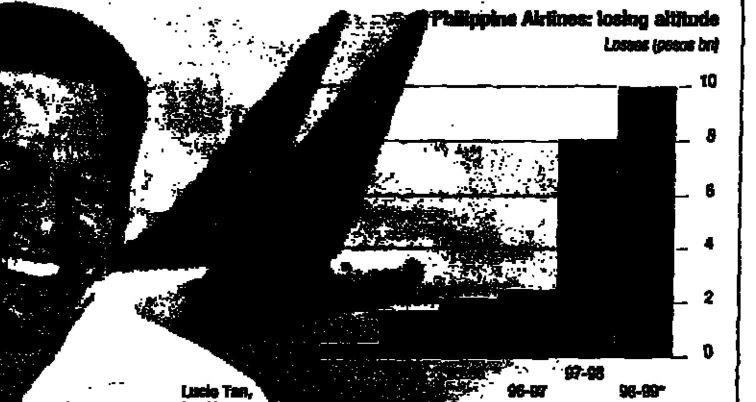
This includes Boeing, Chase Manhattan Bank, domestic banks and the International Air Transport Association, the airline industry's umbrella body..

But the airline has friends in powerful places. Joseph Estrada, the president, gained political kudos for brokering PAL's return to operations.

It has been widely rumoured that Mr Tan was persuaded by Mr Estrada, a close friend of the tycoon, to provide the offer of the $200m cash injection.

Ian Wild, airlines analyst with SG Securities, says PAL still faces a long road ahead of it towards recovery.

"The chances of it actually prospering are somewhere between near and zero," he said.



Lucio Tan, chairman of Philippine Airlines

Goldman buys into Hapoalim

By Avi Machlis in Jerusalem

Goldman Sachs, the investment bank, yesterday bought 2 per cent of Bank Hapoalim, Israel's biggest banking group, from the Israeli government in a $59.1m block trade, reducing the state's stake to 22 per cent.

The deal, involving 24.7m Hapoalim shares, followed "very aggressive" bidding by four contenders, including Merrill Lynch and Lehman Brothers, according to Meir Jacobson, managing director of MI Holdings, the government company responsible for privatising banks.

The shares were sold at Shk9.65, a 2 per cent premium to Tuesday's close in Tel Aviv. Hapoalim climbed 3 per cent yesterday to Shk9.78.

Israel recently authorised *the sale of 8 per cent of* Hapoalim after the bank's *controlling shareholders*, led by Ted Arison, the US-Israeli *billionaire*, declined an option to increase their 45 *per cent stake.* The group holds an option for another 7 *per cent in October.*

NEWS DIGEST

TELECOMMUNICATIONS

Global TeleSystems pays €194.6m to control Omnicom

*Global TeleSystems Group, the US-based tele*communications carrier, is expanding in Europe with the *€194.6m ($210m) acquisition of a controlling stake in* Omnicom, the French operator. As required under French regulations, GTS's *acquisition of 52 per cent of Omni*com's shares means it must now make a full offer. The shares are being sold by the group's founders and management, with a full offer being recommended by the boards of both companies.

Omnicom, which is listed on the Nouveau Marché, specialises in offering telecoms services for small and medium-sized businesses and is France Telecom's main competitor in this market. It has also recently begun marketing to residential customers.

GTS is paying for its initial interest with 1.85m shares, which are listed on Nasdaq and Easdaq, and €95.4m in cash. The transaction price on a fully diluted basis values Omnicom at €396.4m. The price of €195 a share represents a 495 per cent premium over Omnicom's placing price in July 1997, and a premium of 6 per cent over the trading price 30 days before April 13. **Christopher Price**

CHEMICALS

Bayer to sell 55% of Agfa

Bayer, the German chemicals and pharmaceutical group, said yesterday it would float up to 55 per cent of Agfa-Gevaert, its photo-imaging subsidiary, on the Frankfurt and Brussels stock exchanges on June 1. Separately, Bayer will sell a 15 per cent stake to the Belgian financial holding company Gevaert NV, which has the option to purchase another 10 per cent of Agfa shares from Bayer after one year. The public offering, likely to be one of Europe's biggest share offerings this year, could be valued at DM7bn-DM8.5bn (€3.6bn-€4.3bn, $3.9bn-$4.7bn). Book-*building will take place between May 17-28*, and the price range announced at the beginning of that period.
Uta Harnischfeger, Frankfurt

BANKING

Dexia bids to acquire BIL

Dexia, the Franco-Belgian bank, yesterday launched a bid to acquire the 38.5 per cent of Banque Internationale de Luxembourg it does not already own. The group, a specialised lender to local authorities created from the 1996 merger of Crédit Local de France and Crédit Communal de Belgique, is offering 10 Dexia France shares, five Dexia Belgium shares and LFr41,000 ($1,097) for every two BIL shares. The terms, valuing the 38.5 per cent at €995m ($1.07bn), offer an 11.2 per cent premium over BIL's closing price on Tuesday. If the 642,132 outstanding shares and convertible bonds are submitted to the offer, the group would issue 3.33m new Dexia France shares and 1.66m Dexia Belgium shares. The cash component would amount to €338m. **Samer Iskandar, Paris**

INSURANCE

Premiums up 21% for Eureko

Eureko, the alliance of seven European insurers, said total premiums increased 21 per cent last year to €818m ($883m) and ordinary income rose 72 per cent to €64m. However, net income fell from €82m to €70m, due principally to one-off gains in the previous year from the sale of US subsidiaries. Jeff Medlock, chairman, said he would continue to review opportunities to expand the alliance, "with the ultimate intention of consolidating *Eureko's* European presence". Last year the alliance lost out in the bidding for GAN, the French insurer, and *earlier this year* was outbid by Axa of France for Guardian Royal Exchange, the UK composite. **Andrew Bolger**

NTT shies away from bid battle for IDC

By Michiyo Nakamoto in Tokyo

NTT, the Japanese telecommunications group which is bidding for IDC, suggested yesterday that it was not prepared to be drawn into a protracted battle with Cable and Wireless of the UK over the international carrier.

Junichiro Miyazu, president of NTT, hinted that the company was not aggressively pursuing IDC.

"IDC asked NTT what kind of stance it would take on IDC. We just responded to their inquiry," Mr Miyazu said of NTT's takeover bid.

Mr Miyazu's comments come on the eve of today's IDC board meeting, at which the company is expected to choose between the two offers.

Mr Miyazu emphasised that NTT would acquire IDC only "if there is unanimous agreement and if NTT is asked to buy [IDC]".

NTT is believed to have proposed a share swap that would allow it to acquire IDC in spite of C&W's pre-emptive rights.

Under a basic agreement among founding shareholders, including C&W which has a 17.7 per cent stake in IDC, C&W has the right to match any takeover offer by a non-shareholder.

The NTT president noted that his company was capable of building its own international business but acquiring IDC would speed up the process. NTT has been known to be keen to acquire IDC.

However, Mr Miyazu's lukewarm comments could reflect divisions within NTT over the importance of IDC to its global strategy.

"There are proponents and opponents of an acquisition [of IDC]," says Toshiaki Iba, telecoms analyst at Tokyo Mitsubishi Securities in Tokyo.

"Some within NTT are against paying such a high price," he noted.

NTT also faces uncertainty over the structure of its proposed bid, which relies on a revision of Japan's commercial code that has not been finalised.

If a "squeeze-out" provision to force C&W to relinquish its stake follows western examples, it would require the consent of 90 per cent of shareholders to squeeze out minority shareholders.

However, C&W insists that it has no intention of voluntarily relinquishing its stake.

Spending out of fashion for retail group and customers

Ito-Yokado defends its cautious approach after being criticised for sitting on large cash reserves. **Naoko Nakamae** reports

Masatoshi Ito, the founder and biggest shareholder of retail group Ito-Yokado, is extremely pessimistic about the prospects for the Japanese economy. His long experience at the helm of one of the country's leading retailers means his views provide an ominous sign for the struggling sector, which has been hit badly by Japan's economic slump.

"I believe the economy is still on a downward trend and deflation will get worse. I think the recession will last another three years," says Mr Ito, who is now honorary chairman of the retailer.

Ito-Yokado is bracing itself for more pain because if Mr Ito's predictions prove correct, the retailer, along with the rest of the sector, faces a tough time. Like many others, it has already seen its net profits fall for two consecutive years.

But many analysts believe it is the best-positioned group to weather the recession. For a start, it has the right credentials. The company, which was ranked 122 in the Fortune 500 last year, is the seventh largest retailer in the world in terms of market value, according to Morgan Stanley.

Also, it has the highest credit rating in the Japanese retail sector with a rare Aa3 rating from Moody's. Globally, only Marks and Spencer of the UK and Wal-Mart of the US enjoy a higher rating.

Masafumi Shoda, retail analyst at Nomura Securities, says another source of strength is its cautious management stance. "Before the recession, other retailers were rushing to open new stores, but Ito-Yokado was concentrating on improving its profit margins by developing strengths in team merchandising and supply-chain management. It also has a large amount of cash."

The contrast with its main rival in the sector, Daiei, is striking. While Daiei is struggling to stay afloat under a mountain of debt, Ito-Yokado is hoarding its cash and keeping its debt levels low.

At the end of the last fiscal year, Ito-Yokado had Y367bn ($3bn) in cash and deposits - by far the largest amount in the sector.

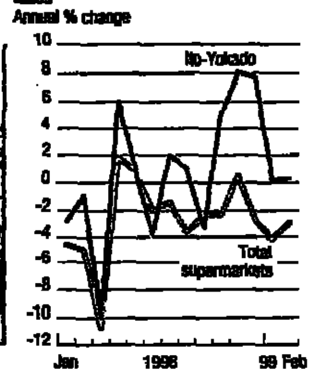
Its debt-to-sales ratio of 6.7 compares with an industry average of 21.5. Ironically, its refusal to spend cash mirrors the spending attitudes of the Japanese consumer that have resulted in profit contraction for the retailer.

The question is whether this is the time for Ito-Yokado to start spending. Borrowing costs for highly rated companies such as Ito-Yokado are low, and the deflationary environment has meant that property prices and labour costs are falling. Some say this provides a splendid opportunity for expansion.

Keeping the purse strings tight

Ito-Yokado
Tokyo's Oimachi branch

Sales
Annual % change



Source: Warburg Dillon Read

Masatoshi Ito
Honorary chairman

But Mr Ito disagrees. First, he believes that the general superstore sector has reached saturation point. Second, he points out that even though Japanese real estate prices are falling, they are still five times those of the US.

He also says that dwindling retail sales give little incentive to open new stores.

"We opened nine new stores in fiscal 1998, but since these stores had lower sales per square metre, it has meant a de facto rent and labour cost increase for us - despite increasing part-time workers. This is how severe the retail environment is right now," he explains.

This view has been criticised by some analysts. "Ito-Yokado is in a difficult environment, but it is being overly conservative. It is not taking advantage of the opportunities it has - with the result that there is not a lot of growth, says Michael Allen, retail analyst at ING Baring Securities.

"Its high rating and low level of debt means that its borrowing capacity is huge, and it could increase its capital very easily. It has the most extreme amount of financial capability of all Japanese retailers," he says.

Other analysts say some of Ito-Yokado's existing stores could use a face-lift. But Mr Ito is adamant that the company is not ready to start spending. "I'm still pessimistic about the economy and think the best way to weather this recession is to be cash-rich and lean," he says.

"We intend to use the cash in the future when the right opportunities arise."

Meanwhile, Ito-Yokado is carefully considering its future. And while no decisions have yet been reached, Mr Ito says that a Marks and Spencer-type strategy - with emphasis on quality and strength in apparel - is one option which is being considered.

His reluctance to make a quick decision stems from his knowledge of the Japanese consumer: "With the speed and quantity of information constantly improving these days, customers are becoming more sensitive to both design and price."

He said the group must be careful because this has also led to shorter and more dramatic consumption trends "where even small mistakes end up costing a lot of money".

Redchip bond scaled back

By Louise Lucas in Hong Kong

China Merchants Holdings (International), the mainland-backed shipping conglomerate listed in Hong Kong, dealt a sour note for the redchip sector when its convertible bond – the first such issue this year – was heavily scaled back amid thin demand.

The company had been hoping to capitalise on the bullish sentiment that has descended on Hong Kong by selling $120m of five year CBs which could be converted into shares at a conversion price of HK$5.12, compared with the last closing price before the deal of HK$4.65.

China Merchant's sponsors were only able to sell half that amount, plus an over allotment of $10m. Merrill Lynch said the offering was scaled down "in the light of current market conditions and the fact the company only needs $60m to fund its proposed acquisition".

Bankers said the outcome of the deal meant the opportunities for other redchips to tap the markets were slim.

"China Merchants is probably one of the strongest credit stories among redchips, so if that had a hard time the prognosis is not great for other redchips," said one investment banker.

Few capital raising exercises have taken place in Hong Kong this year, and take-up has been slim with share prices usually falling after execution. Two mainland privatisations, or H share issues, were pulled in January and February.

China Merchants was the first redchip to test the waters since a flurry of share placements in early November, when six companies raised a total HK$2.7bn ($348m) on the equity capital markets.

Since then, investors' appetite for redchips has been quelled by concerns over a possible currency devaluation – ruled out by Beijing – and the collapse of Guangdong International Trust and Investment Corp, the investment agency that collapsed in October with debts of $4.37bn.

Daewoo suffers after debt rating cut

By John Burton in Seoul

Daewoo, South Korea's second largest conglomerate, yesterday denied it was heading for a financial crisis after Standard & Poor's cut the credit rating for the debt-heavy group's parent company, Daewoo Corporation.

Shares for most of Daewoo's listed companies fell on the Seoul bourse in response to the downgrade, including a 5.9 per cent decline for Daewoo Corp to Won8,860.

S&P reduced Daewoo Corp's rating to B- after its debt more than doubled to $18bn last year from $8bn in 1997. It warned a further downgrade was possible if Daewoo was unable to reduce its debts and shed underperforming businesses.

Korea's Fair Trade Commission recently said total debts for the Daewoo group soared by 40 per cent to nearly Won60,000bn ($49.1bn) last year. Daewoo said it cut its debt/equity ratio to 300 per cent at the end of 1998, but this was largely due to a re-evaluation of assets.

Kim Dae-jung, the Korean president, yesterday warned that the government would disallow asset evaluations by Daewoo and other leading conglomerates, or chaebol, as they seek to reduce their debt/equity ratio to 200 per cent by the end of 1999 under state orders.

Analysts estimate Daewoo's debt/equity ratio is 500 per cent if asset re-evaluations are excluded.

Indonesia considers chemicals merger

By Sander Thoenes in Jakarta

Indonesia is considering a merger of three troubled petrochemical companies in an effort to restructure debt.

Achmad Gozali, director at the trade and industry ministry, said the government hoped to complete the merger of Chandra Asri, Tri Polyta and Petrokimia Nasional by the end of the year.

The government is considering taking over the majority stakes held by three Indonesian shareholders of Chandra Asri and Tri Polyta, as payment for large debts to state banks.

Local officials said Prayogo Pangestu, a close associate of former President Suharto and biggest shareholder in Chandra Asri and Tri Polyta, proposed the equity swap to President B.J. Habibie last week.

A local newspaper yesterday reported that officials expected BP Amoco, owner of 51 per cent of Petrokimia, to buy roughly 50 per cent of Chandra Asri, Petrokimia's main supplier. Tri Polyta would be merged with the other two.

The government would become a majority shareholder, and thus be more amenable to the company's request for a debt rescheduling. Marubeni, the trading company, and other Japanese lenders have agreed to reschedule only principal payments but the local debt carries much higher interest rates.

TECHNOLOGY BANK OF AMERICA AND BANK ONE ESCALATE COMPETITION FOR INTERNET SCHEMES

Big rivals start online billing services

By John Authers in New York

Bank of America and Bank One, the two largest US retail banks, launched rival services yesterday to offer customers bill delivery and payment online, in a sharp escalation of the competition to offer banking on the internet.

The news came a week after a sweeping restructuring of the Integrion consortium, which both banks use as the technology platform for their online banking products. The three banks which now control Integrion are BoA, Bank One and Washington Mutual.

The announcements also followed signs that the frenzied buying of online retailing and broking stocks had for the first time transferred to small companies offering online banking.

Both the new schemes allow for customers to be presented with their bill online, and then pay it through clicking on a box. This is a significant technological advance on bill payment schemes currently available.

Bills can be paid online, but billing companies still need to send the bills to customers conventionally.

Chicago-based Bank One, formed by last year's merger of Banc One with First Chicago NBD, will offer the service to all its customers, concentrated around its branch network in the mid-west. It has signed up 15 companies to present their bills to Bank One customers online – most are large utilities operating in Bank One's franchise area.

The billers have been signed up by Atlanta-based CheckFree and the scheme has been in a pilot stage for three months.

William Fenimore, Integrion's chief executive, claimed: "What we have delivered here is what others have only been able to talk about. This is real, and it works."

Charlotte-based Bank of America, formed by the merger of BankAmerica with NationsBank, is trying to build relationships directly with billers. The bank is comfortably the largest consumer bank in the US, and believes it can build on the advantage of this by establishing its own network of billers.

Its own product is at an earlier stage, and will be offered to all its customers in California later this year, but it is now being used only by the bank's employees.

The only bills being presented on the system at present come from the bank's own credit card company.

It will use the Open Financial Exchange (OFX) software standard, as opposed to Integrion's IFS standard, which will be used by Bank One.

According to Jane Wallace, BoA's head of electronic bill presentment, the bank's offering will build on the billing system BankAmerica had established in California.

She said: "To the best of our knowledge, we believe this is the only financial services provider that's live and operational offering electronic bill presentment using an open and inter-operable standard."

She said the OFX platform would allow billers to invest in the technology to present bills directly online, without worrying that they would be required to make further investments to cover the requirements of new standards.

David Fortney, Integrion's director of development, said the company had a "preferred relationship" with CheckFree, but that member banks were free to decide on how they would make bill payments.

Quattrone warns over internet

By William Hall in Zurich

More than half of all publicly traded US internet stocks, valued at $200bn-plus, will turn out to be "completely and utterly overvalued" in five years time, according to a senior US investment banker.

No more than one in 10 will prove to have been dramatically undervalued at current share prices, said Frank Quattrone, who has been behind many of the biggest deals in Silicon Valley.

Over the last four years the number of quoted internet stocks has risen from four, valued at less than $2bn, to 100, worth $231bn.

Over the same period their combined revenues have risen from $1.3bn to $10bn while their combined losses have risen from virtually nil to $1.9bn. "The price to loss ratio has expanded dramatically," said Mr Quattrone, who said the average internet stock was trading at 23 times revenues and many are trading at up to 40 times future revenues.

Mr Quattrone, who hit the headlines last year when he and his 150-strong team defected from Deutsche Bank to Credit Suisse First Boston, said that despite the high risks, investors could afford to ignore the growing importance of the technology sector. It has risen from 5.5 per cent of the S&P 500 index in 1964 to 19.4 per cent now.

It is now more than three times the size of the energy sector and six times as big as the US utility sector, the traditional heavyweight components of the US stock indices.

"Everyone deep in their bones recognises that there is a category of companies called internet which is changing the world and represents the future. And they know that the category of stocks 10 years from now will be worth a lot more than today. Unfortunately there are only a very few stocks they can invest in," Mr Quattrone said.

In many cases stocks had been bid up to levels that cannot be explained.

"If they invest in 20 of them they can make 19 mistakes, and if they get one of them right they think they will make an awful lot of money," said Mr Quattrone.

Investors are being tempted by the hope they can match the returns of the original investors in Intel who have seen a 40,000 per cent increase in their original stake.

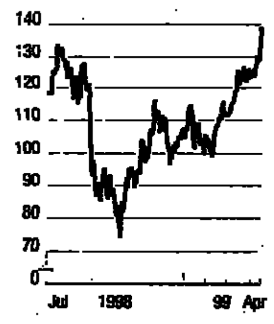
The average stake of the 15 companies in Mr Quattrone's technology IPO "Hall of Fame", valued at $1,339bn, has risen by 5,756 times and the median increase is 483 times.

Mr Quattrone believes the rise in share prices will underpin another "blockbuster" year for initial public offerings, mergers and acquisitions in the US high-tech industry.

JP Morgan surpasses all expectations

By Tracy Corrigan in New York

JP Morgan
Share price ($)



Source: Datastream/ICV

J.P. Morgan fulfilled promises of improved returns yesterday, delivering a 64 per cent surge in first-quarter earnings.

The stock rose $9½, nearly 7½ per cent, in morning trading to $138⅞, after J.P. Morgan announced earnings per share of $3.01 for the first quarter.

This dramatically outstripped Wall Street analysts' estimates of $1.73, according to First Call.

Although investment banking earnings are notoriously unpredictable, such a wide divergence is unusual.

The bank announced first-quarter net earnings of $539m, up from $356m before a charge a year ago, on revenues of $2.5bn, up 25 per cent.

Return on equity jumped to 22 per cent, just below that of industry leaders such as Merrill Lynch. Its return on equity had lagged below 10 per cent in some recent quarters, before charges.

J.P. Morgan has been struggling for 10 years to convert its commercial banking franchise into a profitable investment banking business.

But the cost of building its equities and mergers and acquisitions businesses has depressed returns.

This has led to speculation it could be a takeover candidate, although the bank has insisted it wishes to remain independent. Investment banking revenues of $258m were slightly higher.

Sandy Warner, the bank's chairman, told shareholders at its annual meeting yesterday that "strong client activity, effective management of risk and cost control combined to produce a strong start to the year".

He said the bank had made significant progress in the past year in implementing its strategic agenda of building investment banking and equities, releasing underemployed capital and improving productivity.

"Sandy Warner has been looking down the barrel of a rifle for the last three or four quarters," said Derek Sword, bank analyst at Keefe, Bruyette & Woods, the US brokerage.

"He will go home tonight a happy man. It probably takes J.P. Morgan out of the potential clutches of a Dresdner or an HSBC."

He added that although Morgan had been helped by heavy trading flows, the jump in return on equity could not be attributed simply to market conditions. However, he noted that Morgan's earnings tended to be volatile, and it remained to be seen whether the improved performance was sustainable.

Morgan raised its profile with landmark deals that included the merger of BP and Amoco. Credit market revenues jumped 91 per cent to $696m on narrowing credit spreads and recovering client demand, the bank said.

Mr Warner said credit exposures in Latin America and Asia had been reduced by 40 per cent and 50 per cent respectively following last year's market turmoil.

Warner returns to profit

By Christopher Parkes in Los Angeles

Back in the black: Gerald Levin, group chairman Reuters

Time Warner rebounded from a $62m loss in the first quarter of last year to a net profit of $138m this time, beating analysts' forecasts.

Earnings per share, after preferred dividends, were 10 cents compared with a deficit of 12 cents, in what Gerald Levin, group chairman, described as an "exceptionally strong" quarter.

All the wholly-owned divisions – publishing, music, TBS cable networks and TBS films – reported strong growth in cash flow. The Entertainment Group, which includes Warner Bros, the HBO cable networks and cable systems, contributed $342m in pre-tax profits compared with $107m last year.

Warner Bros, the film and TV programme division, reported cash flow up 190 per cent at a record $346m, boosted by a $215m net gain from the early termination of its video distribution agreement with Metro-Goldwyn-Mayer.

Excluding this benefit, cash flow, defined as earnings before interest, taxes and amortisation, rose 10 per cent, the company said.

Hit films in the quarter included *You've Got Mail* and *Analyze This*. Prospects for the new reporting period have already been enhanced by the early success of *Matrix* which grossed $77m in its first two weeks on US release.

The TBS film division, mainly comprising Castle Rock and New Line, improved with a record $29m cash flow after a $15m deficit last year when Castle Rock's lack of success dented the results.

Cash flow from publishing, which includes Time and Fortune, rose 11 per cent to a record $94m, while music grew 10 per cent to $102m.

TBS cable, which includes CNN, TNT and the Cartoon Network, also had a record quarter with cash flow up 20 per cent at $184m.

With interest sharpened by big news events such as the conflict in Kosovo and the Dow-Jones Average's move above the 10,000 level, CNN websites recorded a three-fold increase in visits to 1.6bn page impressions.

Cash flow from the group's cable systems, which serve almost 13m subscribers, rose 6 per cent to $403m, which represented a 10 per cent increase after adjustment for sales and exchanges with other operators.

Aggregate cash flow for the whole group, discounting these transactions and the MGM video distribution settlement, rose 24 per cent during the quarter and revenues increased by 7 per cent.

Hughes lifted by DirecTV

By Christopher Parkes in Los Angeles

Hughes Electronics stock rose sharply on Wall Street yesterday after the company said its DirecTV satellite broadcasting venture had "turned the corner" in the US.

Although group cashflow slipped in the first quarter and the company said it had lost a contentious contract to launch an Asian telecommunications satellite system – resulting in a one-time pre-tax charge of $92m – Hughes shares had risen 4 per cent to $57¼ at noon.

Excluding exceptional items, which included a gain of $155m before taxes from a legal settlement, profits were down 25 per cent at $40.1m, or 10 cents a share (13 cents).

Michael Smith, chairman and chief executive, said DirecTV had become "a key growth and value driver" for the company. With 4.8m US subscribers at the end of the quarter under review, and doubled revenues from its Latin American operations, the division reported cash-flow of $3.9m, compared with a $9m deficit.

DirecTV's revenues rose 44 per cent to $557m, aided by a 34 per cent increase in US sales. While the Latin America service added 70,000 subscribers for a total of 554,000, DirecTV Japan, 42 per cent owned by Hughes, gained only 29,000, rising to 260,000.

Satellite manufacture, which is still the biggest contributor to revenues, reported sales of $630m against $624m. Excluding the charge for the contract cancellation, cashflow – defined as earnings before tax, interest, depreciation and amortisation – rose 21 per cent to $80m.

The loss of the contract with Asia-Pacific Mobile Telecommunications of Singapore was expected, after Washington refused on security grounds to license it for launch on a Chinese Long March booster.

German sales boost Intel

By Paul Taylor

Consumer demand for high-performance home PCs is so strong in Germany that Intel, the world's largest chipmaker, has been "scrambling to keep up with demand" for its Pentium III microprocessors.

Rob Eckelmann, head of Intel's European, Middle East and African operations, said yesterday: "The German market has become one of the real engines of growth. On the consumer side in particular, people are buying the latest technology at the best prices in the world." Germany is Europe's biggest PC market and is fiercely competitive.

Mr Eckelmann said Intel had not detected any "Year 2000" effects in current trading. Some industry analysts have speculated that the Year 2000 computer date problem might prompt buyers to bring forward their PC purchases this year. However, he said Intel expected second-quarter sales to be "flat to slightly down" in Europe – in line with normal seasonal variations.

Mr Eckelmann's comments followed the release this week of strong first-quarter results from the US chipmaker. The company cited strong sales of its Pentium III processors, which were launched in February, as one of the reasons for its higher-than-expected earnings. This could help dispel fears of a downturn in the high-technology sector.

The results had been anxiously awaited after the shock profit warning from Compaq Computer, the world's largest personal computer manufacturer, on Friday.

Intel's revenues of $7.1bn were up 18 per cent from $6bn. Net income was $2bn, up 57 per cent from $1.3bn.

Earnings per share rose 58 per cent to 57 cents, from 36 cents in the first quarter of 1998, adjusted for a 2-for-1 stock split earlier this month.

Gross profit margin for the quarter was 59 per cent of revenues, well above Wall Street estimates. The company said this was largely because of cost controls.

The US group said it recorded normal seasonal moves in the PC market during the first quarter and was basing its production plans on the assumption that this would continue throughout the rest of the year.

Business had picked up in Japan and was strong in Taiwan and China. Europe also remained strong, boosted by the rapid growth in internet use.

NEWS DIGEST

TELECOMMUNICATIONS

KPNQwest might seek stock market listing

KPNQwest, one of a new generation of upstart carriers with ambitions to create Europe-wide telecommunications networks, is considering a stock market listing to help finance future acquisitions across the continent, according to a US executive involved in the venture.

A joint venture agreement between the Dutch carrier KPN and US-based Qwest to create the company was finalised earlier this week. The venture's operations will be based initially on KPN's existing 2,100 fibre optic network and Qwest's European internet service provider, EUnet, which claims nearly 84,000 customers.

With $800m in debt finance, to be raised from banks and in the bond markets in the coming weeks, the two companies said they planned to extend their high-speed network to 9,100 miles by the end of 2001, spanning most of the continent.

The joint venture would consider a stock market listing after the debt has been raised, said Jack McMaster, an executive vice president of Qwest. Such a move would give it "a currency to expand", he added, making it easier to buy other internet service providers and data services companies. The US equity and junk bond markets have proved very willing to finance a spate of untested telecoms ventures in recent years, supplying billions of dollars of what amounts to venture capital to support a new high-speed telecoms infrastructure. KPNQwest is likely to try to raise debt in the form of euros in both the US and European high-yield bond markets, Mr McMaster said, though he refused to say on which side of the Atlantic it might seek to list its shares. **Richard Waters, New York**

CHEMICALS

DuPont in joint venture

DuPont, the US-based chemicals and life sciences group, said yesterday it would be a 50 per cent partner in a joint venture with Alpek, the privately owned Latin-American petrochemicals company, and Japan's Teijin to produce polyester filament yarn in the Americas. Terms of the deal were undisclosed. The joint venture will have more than 850m pounds of capacity and revenues of about $600m.

"This is the next step in our plan to adopt a new business model for DuPont's polyester enterprise based on strong joint ventures," said Eduard Van Wely, DuPont senior vice president. DuPont and Teijin recently announced a 50/50 global joint venture to make and sell polyester films. **Tracy Corrigan, New York**

ENGINEERING

Harnischfeger faces proxy fight

Harnischfeger Industries, the troubled US manufacturer of mining and paper-making equipment, could be headed for a proxy fight after a dissident shareholder gave notice it was seeking to change the company's bylaws so that all "significant transactions" would have to be put to the group's shareholders and a new "non-management" chairman would be brought in to head the company.

News of the potential proxy fight by Thomas Taylor, an investment adviser to the Texas-based Bass family, was given in the filing with the Securities and Exchange Commission. Mr Taylor and the Bass family, well-known for its aggressive investment activity in struggling companies, are part of a shareholder group that that owns 8 per cent of Harnischfeger.

Mr Taylor recently ignited shares in Harnischfeger when he mentioned in an earlier filing that the group had received a buy-out approach. **Nikki Tait, Chicago**

BANKING

Fleet Financial ahead 36%

Fleet Financial Group, the Boston-based bank that last month announced that it was acquiring BankBoston for $16bn, chalked up a strong performance in the first quarter of the year, with earnings rising 36 per cent to $438m, or 72 cents a share. By mid-session, Fleet's shares had gained more than the banking sector as a whole, up $1⅞ or 3.3 per cent at $44½. Terrence Murray, chief executive, said the quarter was spectacular. "The business momentum we felt in 1998 has accelerated in the early part of 1999," he explained. Earnings at the brokerage arm Quick & Reilly doubled to $47m, boosted by a strong performance in online trading. Overall revenues increased 23 per cent. **Victoria Griffith, Boston**

Free internet leading way towards the disposable PC

Services are often worth more than hardware, writes **Roger Taylor**

This week saw the launch of an innovative free service providing people with everything they need to connect to the internet. The news came just days after Compaq, the largest computer-maker in the US, said it would earn roughly half of what Wall Street expected in the current quarter.

The contrast between the troubles of the computer-makers and the popularity of new free internet and free PC offers marks an important point in the development of the personal computer – the value of the software and hardware is now significantly less than the value of the services that can be delivered with such technology. Indeed, it is probably less even than the value of customer information that can be obtained in return for a computer.

The latest free offer, from PowerChannel, has several new twists. Customers use their televisions instead of the usual monitors. Users get a "freePCTV" set-top box which plugs into their TV and is operated with a wireless remote control and keyboard. The box provides access to the internet and e-mail but cannot perform the other functions of a PC. The customers get free, unlimited internet usage with the PCTV box.

PowerChannel aims to make the offer pay by collecting data about patterns of internet usage and by surveying its customers. It will then sell this information to marketing companies as a cheaper alternative to expensive public opinion surveys.

FreePC.com, which was first to market with a free PC offer earlier this year and a start-up like PowerChannel, also works on the fact that the value of the personal information that can be gathered from customers in return for the PC is more than the cost of the service. However, most of its revenue comes from placing adverts on the computer.

The challenges facing PC-makers are unlikely to get any easier in the future

Two other companies – DirectWeb of New Jersey and Gobi of New York – are also offering "free PCs". However, they give PCs to people who agree to buy their internet service. The PCs are of reasonable quality with 300 Mhz processors, colour monitors, speakers and Windows 98 software.

These are not the latest and most up-to-date computers. However, they provide a level of functionality which would give adequate internet access and processing power for many users.

Brian Halla, chief executive of National Semiconductor, the chip manufacturer, has long been an advocate of the free PC, and his company has been one of the largest beneficiaries of the growth of the free and ultra-cheap PC market. He says the final stage of the commoditisation of the PC market has not yet been reached – that will come with the arrival of the disposable PC in the not too distant future.

This trend is linked also to the growth of handheld computers and other forms of internet access device, such as PowerChannel's PCTV. The aim is to create devices that are easier to use than traditional PCs and which may come in a variety of forms.

To some analysts, these developments mark a sea-change in the computer industry, in which internet access devices could become as commonplace and cheap as digital watches. Companies such as IBM are already talking about the post-PC era. While most observers think such talk is premature, it is a reminder that the challenges facing Compaq and the other PC-makers are unlikely to get any easier in the future.

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Eurotunnel seeks US partner for telecoms side

By Susanna Voyle

Eurotunnel, which operates the Channel tunnel between England and France, is seeking a US partner to help it develop its telecommunications business, and is already in talks with some US telecoms operators.

The group said its telecoms operations had a turnover of £8.9m ($14.3m) last year – three times that achieved in 1997. The business has two separate activities: European Telecoms, which acts as a commercial telecoms operator providing services between London and Paris, and a cables infrastructure side.

It is in the first of these two businesses that Eurotunnel hopes to find a partner. Eurotunnel moved into the telecoms market in 1996 after the European industry was deregulated – taking advantage of the spare capacity on its own fibre optic network which it uses for operational equipment.

Alain Bertrand, managing director of the telecoms operations, said the network had been completed at the start of this month. The group hopes that its business will attract US telecoms operators which do not yet have European operations, while it needs the marketing experience that an established telecoms company would bring. "We are not big enough to generate many more contracts," said Mr Bertrand. "But together we could accelerate and invest in further geographic development in mainland Europe."

Eurotunnel would consider setting up a joint venture with a partner, or letting it take an equity stake in its telecoms business.

"We are having interesting conversations," said Mr Bertrand. "I think things could speed up this spring."

Eurotunnel Telecoms has 20 operators and companies using its services.

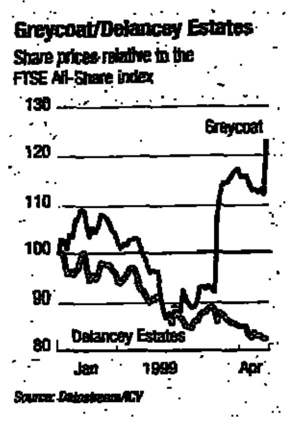
The cables business allows operators to install their own equipment as well as providing cabling, installation and maintenance services for customers. The dry environment of the tunnel enables high-capacity cables to be put in place quickly and maintained much more easily than by running them over the sea bed.

The business has just completed the installation of a cable in support of British Telecommunications' pan-European network.

Eurotunnel shares rose 6½p to 99p.

COMMENT

Greycoat



How timely. A much higher than expected 29 per cent increase in Greycoat's net asset value has sparked a 9 per cent leap in the City of London property company's shares. This leaves Delancey Estates' attempt at a hostile all-share reverse takeover sprawling in the dust. Seventy per cent-owned by George Soros's funds and managed by James Ritblat, son of the chairman and chief executive of British Land, Delancey is offering just 194p in its own illiquid paper. True, Greycoat's shares at 235p are still a good way below its revised NAV of 283p. But Delancey's offer looks long on chutzpah and low on credibility.

However, it is not just a question of price. The idea of Mr Soros looming over the merged company's share register does not appeal to everyone: his funds would hold over a quarter of the new group's share capital at today's prices. And notwithstanding Mr Ritblat's famous father, Delancey's management is an unknown quantity as far as the public market is concerned, even if Mr Soros is a fan. Quite sensibly, therefore, Greycoat has launched itself into finding a better offer: setting up a sealed bid auction among interested parties is a good way of accelerating this process. With any luck, shareholders should get a recommended bid by mid-May.

Halifax

Halifax's plan to create a single high street network out of its retail banks and estate agencies sounds good in theory. After all, it enables the UK's leading mortgage lender to save £50m by disposing of 224 estate agency outlets, representing over a third of its total. The logic is that greater integration will lead to juicy opportunities for cross-selling. Some 10 per cent of the value of Halifax's outstanding mortgage book originated from the estate agency network in 1998.

Unfortunately, all the evidence from other corporate estate agencies is that it is hard to justify this vertical integration. Hence the mass exodus of financial institutions from the business over the past few years. Nor does the cultural fit between box-ticking commercial bankers and free-wheeling estate agents look that natural either. It would be better if Halifax copied its peers and quit the business altogether.

NEWS DIGEST

BANKS

Midland takes over Mid-Med Bank of Malta

Midland Bank, the UK subsidiary of HSBC Holdings, is to take control of Mid-Med Bank, in a deal that values Malta's largest commercial bank at about LM102m ($258m). It agreed yesterday to buy the 69.8 per cent holding in Mid-Med owned or controlled by the Maltese government, and to make an offer for the outstanding minority at the same price. Midland is the only international bank with a full banking licence in Malta. HSBC said yesterday it would review whether Midland's one local branch and Mid-Med's 60-plus branches would continue to be run separately.

Midland has agreed to pay 1.537 times Mid-Med's net assets of $183m at September 30 1998. Subject to adjustment after due diligence, this would value Mid-Med's shares at LM2.90, a 31 per cent premium over the average price over the past six months, and the government's direct and indirect stake at almost LM71m. The government will also receive LM12m to provide guarantees and to accept deferred payment of part of the purchase price.
Clay Harris and Godfrey Grima

PUBLISHING

Elsevier 'always talking'

Reed Elsevier told shareholders in Elsevier, the Dutch half of the Anglo-Dutch publisher, that it was "always talking" to fellow publishers and competitors on "all forms of co-operation". The comments at Elsevier's annual meeting in Amsterdam, from Herman Bruggink, co-chief executive, followed speculation that the group had renewed talks with Wolters Kluwer, the Dutch group with which it almost merged last year.

Mr Bruggink added that he could "give no guarantees" that the company's new chief executive would be appointed soon. Last week Reed Elsevier ended discussions with the leading candidate for the job, Jonathan Newcomb, chairman and chief executive of Simon & Schuster, the US book publishing group.

At the meeting yesterday, Elsevier shareholders approved the implementation of the unitary management structure proposed last year, with a single chairman and chief executive. Reed International's annual meeting is due to take place in London today. Cathy Newman

RETAILERS

M&S franchise in Turkey

Marks and Spencer, the retailer, is expected today to name a new franchise holder for Turkey after the previous one ran into financial difficulties unrelated to the retail business. M&S is understood to have signed an agreement in London this week with Fiba Holding, a finance and retail group that owns Finansbank, a middle-tier bank, and Gima, a domestic chain of 54 grocery stores.
Leyla Boulton in Ankara

Greycoat repeats bid rejection

By Norma Cohen

Greycoat, the City of London property company which has put itself up for sale, yesterday reported a 29 per cent rise in net asset value for the year ended March 31 to 283p per share, and reiterated its rejection of an all-paper bid worth 194p a share by its smaller rival, Delancey Estates.

Greycoat, through its adviser, NM Rothschild, have announced a tender offer for the company in which prospective buyers are to submit sealed bids to be agreed by mid-May. The move is being widely watched by the property industry where smaller companies face growing pressure to improve returns to shareholders, either through a merger or liquidation of their assets.

In March, Delancey made its bid, valuing Greycoat at 194p a share. "Delancey's offer is only in Delancey shares, which are of uncertain value and liquidity," said Michael Beckett, Greycoat's chairman, in a letter to shareholders. "Simply put, Delancey's share offer is at the wrong price and in the wrong currency."

More than 70 per cent of Delancey's shares are owned by members of the Ritblat family – including James Ritblat's father, British Land chairman and chief executive John Ritblat – and entities connected with investor George Soros.

Greycoat shares jumped 19p to close at 234½p, while Delancey shares closed unchanged at 98p. Analysts said the share price movements suggested investors expect another offer, probably in cash.

James Ritblat, managing director of Delancey, yesterday declined to be drawn on whether he will improve his offer, saying only "I am reviewing the position."

Peter Thornton, chief executive of Greycoat, left, with Martin Poole, finance director and Chris Strickland, development director, at Tower 42 – formerly NatWest Tower – London EC2 Colin Beere

US Steel fund votes for Electra

By Katharine Campbell

US Steel and Carnegie Pension Fund has voted its 3.3 per cent stake in favour of Electra Investment Trust and its reconstruction proposals which are due to be put to an extraordinary meeting today.

Electra is fighting a £1.3bn ($2.1bn) cash and paper bid from 3i, and needs 75 per cent of the votes cast to push through the proposals. If it succeeds, the bid will lapse. GE Investments, which manages pension fund money for General Electric of the US and also owns 2.4 per cent of the trust, has also voted for Electra.

The vote looked delicately balanced, according to analysts, as a single trade of 2.68m shares (1.5 per cent) went through yesterday at 750p, accounting for the bulk of the day's trade. The bargain was done by Warburg market makers. Electra closed at 725p, up 1½p. The 3i offer was worth 744p at the close.

Brokers said the purchaser would not be able to register in time to vote today.

The Takeover Panel confirmed that it completed its examination of trading in 3i shares last Friday, as requested by Electra, and would take no further action.

Halifax to sell a third of agencies

By Christopher Brown-Humes

Halifax said yesterday it would cut 1,500 jobs by selling more than one third of its estate agencies in a sweeping overhaul of its high street operations.

Some 224 estate agencies will go by the end of August, leaving the UK's biggest mortgage provider with 382 outlets.

The move will help the group integrate its retail banking outlets and estate agencies to create a single high street network and enhance cross-selling opportunities.

Savings are estimated at £50m ($81m) a year, although, initially, sales are expected to fall by up to £30m. There will be an exceptional charge of up to £25m with a further £120m of goodwill – previously written off against reserves – taken through the profit and loss account.

It is the bank's second big initiative this year – following earlier plans to hand back £1.5bn to shareholders – and is part of a drive to put behind it two difficult years when it is widely perceived to have lost strategic direction. James Crosby, chief executive, said the new structure would be more customer focused.

Harry Hill, managing director, said he was interested in all the outlets. Bradford & Bingley, which last year bought the Black Horse estate agencies from Lloyds TSB, is also understood to be interested in some sites.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Action Computer	6 mths to Feb 28	140.9	(108.1)	2.72	(3.09)	5.5	(6.5)	1.35	June 9	1.25	-	3
Greycoat	Yr to Mar 31	26□	(24.1□)	9.4	(12.8♠)	8.7‡	(10.6)	nil	-	1.5	nil	1.5
High-Point Rendel	6 mths to Jan 31	12.4	(12.3)	0.91	(0.76)	3.5	(2.8)	0.5	May 12	nil	-	nil
IFG ♣	Yr to Dec 31	28.9	(22.7)	3.77	(2.31)	7.15†	(4.71)	1	Aug 27	0.75	1	0.75
L Sanber †	6 mths to Feb 28	30.4	(19.5)	3.8♠	(2.01♠)	12.4†	(10.2)	3	June 14	2.7	-	8
Mid-States	Yr to Dec 31	87.5	(71.5)	2.01	(6.18L♠)	3.2	(11.3L)	0.24	July 7	0.24	0.48	0.48
Peel Hotels ◊	Yr to Feb 21	3.33	(-)	0.754	(-)	10	(-)	1	June 9	-	1	-

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. □Gross rental income. ‡On reduced capital. †On increased capital. ‡Irish currency. ◊Aim stock.

TECHNOLOGY

Objectivity and the cash factor

Is industry-funded research inevitably tainted and should backing always be disclosed? **Vanessa Houlder** reports

Science under scrutiny

Scientists pride themselves on being dispassionate and objective. But increasingly, questions are being asked about whether their judgment is affected by the source of their funding.

The issue came up this week when the UK government announced plans to overhaul a scientific advisory body after claims it was tarnished by links to the biotechnology industry. "A bunch of moonlighting industry boffins," was the unflattering description used by some campaigners.

The decision did not, in itself, say anything about the scientists' judgment. It was designed to calm public fears over genetically-modified crops, rather than respond to specific allegations of bias.

But it highlights a much broader issue: are scientists who receive industry funding invariably tainted? Or victims of a slur which fails to take account of the realities of modern science?

The importance of this issue has been underlined by a sea-change in attitudes to industry funding of university research over the past two decades.

In the US and elsewhere, academics have been encouraged to supplement government funds by seeking additional research money from industry. At the same time, a more entrepreneurial spirit on the part of academic scientists and research institutions has led to a profusion of research-based companies.

This has enriched universities, scientists and the economy as a whole. But it may also have eroded the reputation of universities for impartiality.

Richard Strohman, professor at the University of California, Berkeley, has observed: "Academic biologists and corporate researchers have become indistinguishable. Special awards are given for collaborations between these two sectors for behaviour that used to be cited as a conflict of interest."

Critics of industry-sponsored research point to studies in which the results appear to have been "spun" in the industry's favour. The tobacco industry, for example, has engaged scientists, particularly in the US, to publish papers calling into question the many studies indicating the dangers of smoking, according to Professor Tom Sorell of the University of Essex, writing in the British Medical Journal last year.

"Rather like lawyers arguing a case according to clients' instructions, the hired researchers have often claimed that the apparently damaging evidence is not full enough or have brought up arcane methodological objections. And the partisanship of some of these papers has often been concealed," he said.

This sort of abuse should, in theory, be detected by the academic journal editors and reviewers who decide whether to publish research.

But should the readers of published research be told about the author's business links? This question was widely aired following research by Sheldon Krimsky, a professor at Tufts University, which showed that a third of a group of scientists in Massachusetts had financial interests in work that they published in academic journals in 1992. The pervasive links between business and academia led him to argue for "open publication of financial disclosures".

Some journals have tackled this issue by publishing a note at the bottom of articles about the financial interests of contributors. Others are considering whether to follow suit. Nature, for example, is discussing whether introducing this practice would address potential concerns about transparency.

But some argue against disclosure. One counter argument is that the declaration of business interests tends to give undue importance to just one source of influence, ignoring the academic, personal and political issues that can often be more powerful – although less easy to identify.

"Would the impact on readers of a declaration of interest differ from that of a statement that the success of the next grant application would be that much greater as a result of publication?" asked a Nature editorial two years ago.

Richard Horton, editor of The Lancet, is unconvinced by the case for disclosure, because of concerns that readers, faced with a conflict of interest statement at the end of the article, may tend to dismiss research without judging it on its merit. "You are almost saying 'don't read it at its face value'," he says.

He is also critical of the practice of some journals of barring researchers with relevant financial interests from writing reviews. "I think it is potentially stifling debate," he says.

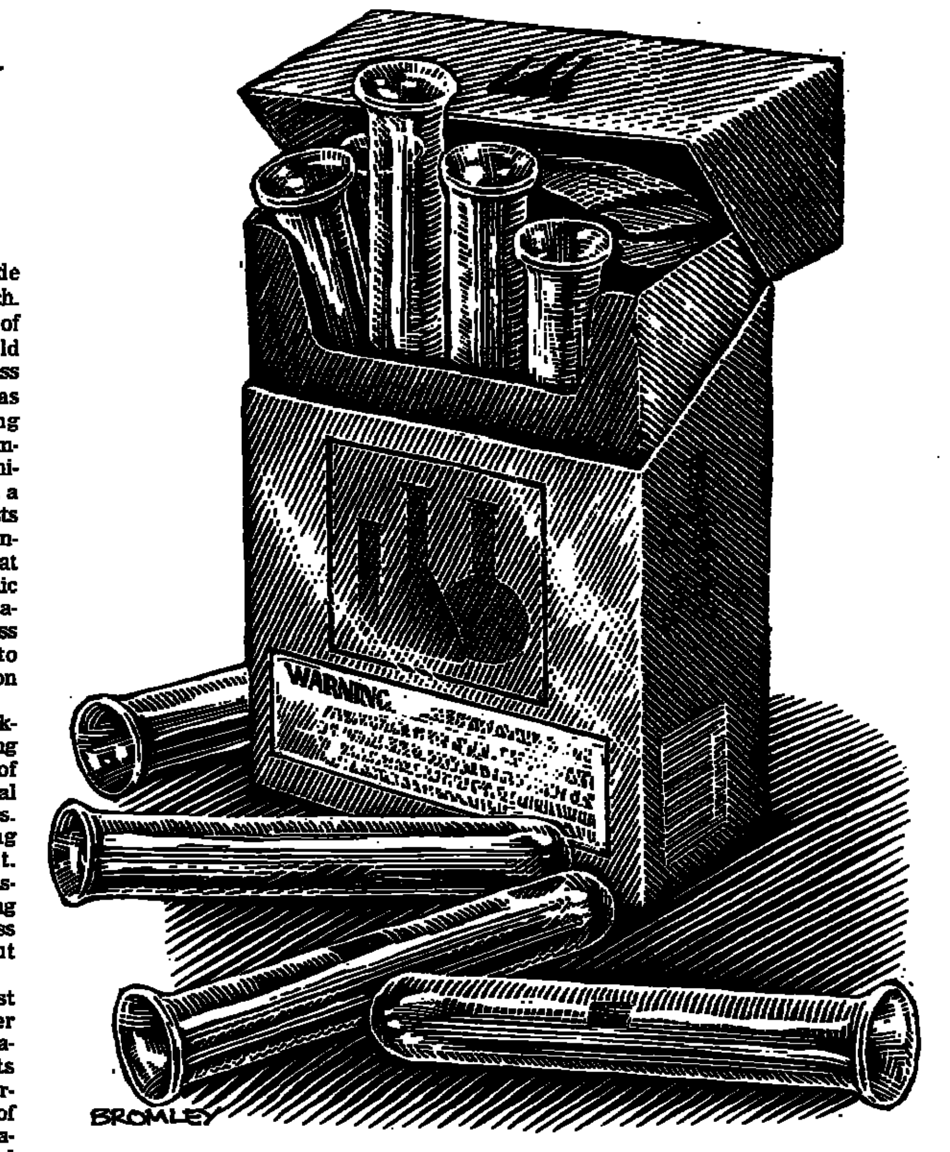
He points out that industry tends to seek out the researchers with the best reputations in their field. There is a danger that journals which exclude contributions from industry-funded scientists confine themselves to "Grade B" researchers, he says.

This highlights a wider issue about the limitations on scientific debate that may follow from industry sponsorship. Does commercial involvement lead researchers to play down relevant data and delay or withhold publication of negative findings?

A study by David Blumenthal, head of health policy research at Massachusetts General Hospital, found that commercial interests commonly led to a delay in publication of scientific findings. Reasons included a desire to protect their scientific lead and slow the dissemination of undesired results.

The selective publishing of results is not a widespread problem. But it is a significant source of potential bias, because it is harder to detect and police than distortions in published research. The closer relationship between academia and industry has brought countless benefits – but sometimes at a price.

This is the fourth article in a series on scientific regulation, which continues next week.



ARM'S LENGTH FUNDING

Bayer's $17m stake on the right result

Sponsors that cede control of academic studies can still reap rewards, writes **David Pilling**

When Professor Rury Holman of Oxford University asked Bayer to sponsor a five-year study on the treatment of diabetes, he was not expecting the German drugs company to provide all the cash. The study into the effects of lowering cholesterol in diabetes patients was long and expensive. Moreover, it included a drug made by a direct competitor, Fournier of France.

To Prof Holman's surprise, Bayer offered the full £10.4m ($16.75m). The question is, why? Not only would Bayer have no control over the Lipids in Diabetes Study, which had been conceived and designed in academia, but it would not get a glimpse of the results for five years. Even then, the findings might show that neither Bayer's cerivastatin, nor Fournier's fenofibrate had the desired outcome of reducing cardiovascular disease in diabetics. Perhaps worse, the French company's drug might do better.

But if the study, which covers 5,000 patients, produced the desired result, Bayer would have much to gain. The study aims to prove that reducing lipid levels in people with adult-onset diabetes can significantly reduce the risk of coronary heart disease, from which diabetics are three times as likely to suffer.

If Prof Holman is right, a big new market could open for cerivastatin, which last year racked up DM200m ($109.5m) in sales. Although there are several other statins on the market, Bayer's would be the only one with proven efficacy in diabetes.

"If they get a high-profile, bona fide study like this that gives a good result, then it's cash in the bank for them," says Prof Holman.

But it takes a "brave" company to go head-to-head with a competitor, he says, adding that there was a series of "delicate negotiations" before Bayer agreed to proceed.

"It's not unusual for us to do this," says Sylvia Barber of Bayer UK. "We recognise the need for academic-led studies." Bayer stands to gain from the "increased credibility" of any results, which are likely to be a better reflection of real clinical practice than industry-led trials conducted primarily for the benefit of regulators.

Prof Holman believes the "symbiotic relationship" that has evolved between academia and industry, though occasionally strained, is workable.

"You have to ensure that the project is not hijacked by private industry, that it is academically clean," he says.

Drug companies prefer to design trials themselves before looking for academics to conduct them, he says.

If academics can persuade them to do it the other way round, they can tap into a rich source of funding and maintain their independence.

TECHNOLOGY WORTH WATCHING

Fresh water the key to fishy business of marine farming

Keeping goldfish is relatively simple but industrial-scale pisciculture is another matter, writes *Edwin Colyer*. All animals excrete toxic substances. In the wild the fish simply swim away but in tanks toxins build up to levels that, ultimately, kill the stock.

Freshwater fish farms have developed methods for detoxifying the water. Now an international research project is looking to adapt these technologies for marine fish.

Michael Krom, an environmental geochemist from Leeds University, says marine fish dominate the consumer market. "Fresh water fish have been grown for thousands of years but nobody wants to eat them, with the exception of trout.

"We are trying to create an agriculture of fish like there is an agriculture of mammals. We don't go hunting beef on Salisbury Plain. We still go hunting fish."

The research group includes collaborators from universities and institutes in Israel, Denmark and Greece as well as from Leeds. It is looking to use two species of bacteria to transform the ammonia that fish excrete into nitrogen – a harmless gas that is the primary component of air.

The system is well developed in freshwater farms but in salt water the reaction is delicate. Slight changes in conditions can lead to the unwanted conversion of sulphate to hydrogen sulphide, a toxic gas that kills fish even in low concentrations.

Dr Krom, who co-ordinates the project, is developing a cartridge containing iron oxide, or rust, that removes hydrogen sulphide from tank water. "It's the reaction that takes place in sediments," says Dr Krom. "We are harnessing nature's reactions."

The reaction also changes the colour of the rust from red to black, indicating that hydrogen sulphide had been present and that the decontamination process should be adjusted. The cartridge also removes phosphates, sharply reducing pollution levels in any waste water.

The project will begin with a pilot plant at Eilat in Israel. The Greek partners are to build a prototype system in Greece. The technology is expected to be marketed in three to four years.

If Dr Krom's ideas work, marine fish could be farmed almost anywhere in the world. Farms could be built indoors, which would be particularly favourable in the UK as temperatures could be raised artificially to increase growth rates. It has even been suggested that fish could be grown in desert areas, providing a rich protein source and an unlikely cash crop.
m.krom@earth.leeds.ac.uk

IN BRIEF

Prion research raises hope of BSE-free cattle

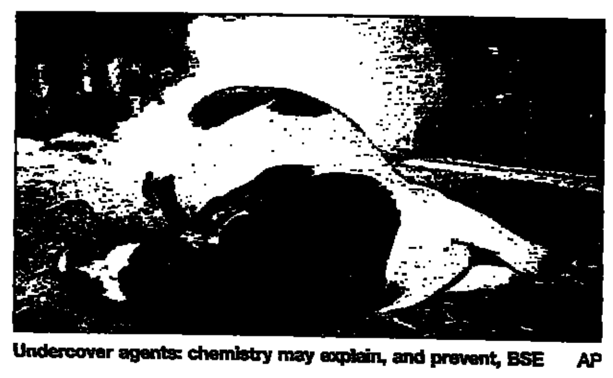
New findings about the structure of prions – the agent responsible for diseases such as BSE, CJD and scrapie – has raised the possibility of breeding animals resistant to mad cow disease.

Researchers at the University of California at San Francisco have shown that part of the prion protein exhibits multiple structures. The researchers think these may provide a chemical explanation for the variety of infectious prion diseases, which in humans include CJD, Fatal Familial Insomnia and Kuru.

Previous studies, in both humans and sheep, have shown that individuals with positively charged amino acid residues in certain regions of their normal prions do not get prion diseases. The three-dimensional structures of prions published by the University of California show that these residues are close to one another.

That suggests breeding animals with positively charged residues in specific regions of their prions could produce a scrapie-resistant or BSE-resistant herd. The research is published in Biochemistry, a journal published by the American Chemical Society.

American Chemical Society: US, tel 2028724445; e-mail y_marsh@acs.org



Undercover agents: chemistry may explain, and prevent, BSE AP

Protein link to body clock

A new insight into the workings of the biological clock has been revealed by scientists in the Netherlands.

Research published in today's Nature, the international science journal, has demonstrated the importance of certain proteins in keeping the body's clock synchronised with the 24-hour rhythm of night and day.

Researchers at the Erasmus University in Rotterdam identified two proteins called Cry1 and Cry2 in mice, which have close similarities to proteins that mediate the light-dependent behaviour of plants.

The importance of these proteins was underlined when the researchers created strains of mice that lacked either one of these proteins.

When the mice were tested in conditions of constant darkness, those mice without Cry1 were found to have body clocks that ran too fast; those without Cry2 were found to have body clocks that ran too slowly.

The results suggested both proteins play an essential part in maintaining circadian rhythms.

Erasmus University: The Netherlands, tel 104087186; e-mail Hoeijmakers@gen.fgg.eur.nl

Software extends mobile capacity

Australian telecommunications researchers have designed software that aims to allow mobile phone networks to carry more calls without any loss of quality.

The software, called Fase (or frequency assignment by stochastic evolution) was developed by CSIRO, the Australian national research organisation and Telstra, the Australian telecoms carrier.

The software allows Telstra to reallocate automatically frequencies among the mobile network cells within a region.

It works by retuning radio frequencies over a general area or by retuning a subset of cells. The result is that Telstra can squeeze more capacity from radio communications frequencies.

CSIRO: Australia, tel 392526050; e-mail damien.thomas@dbce.csiro.au

Vitamin E may inhibit plaque

Some doctors recommend taking vitamin E as protection against heart disease. It has long been identified as an antioxidant that prevents the oxidation of low-density lipoproteins, the so-called "bad" cholesterol that contributes to heart disease.

Now researchers have found it inhibits the activity of an enzyme that plays an important role in initiating plaque formation.

The research, conducted by the University of Texas Southwestern Medical Center at Dallas, is thought to be the first study showing that vitamin E has an anti-inflammatory as well as antioxidant effect.

The study was published in Arteriosclerosis, Thrombosis and Vascular Biology, a medical journal.

University of Texas Southwestern Medical Center at Dallas: US, tel 2146483404; http://www.swmed.edu/home_pages/news/

Vanessa Houlder

هكذا من الأصل

EURO MARKETS

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

Apr 14 National & Regional Markets	Euro Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Euro) €
FTSE Eurotop 300	1229.95	−0.47	−6.19	1.89	5.32	1344.34
FTSE Eurotop 100	3013.32	−0.53	−16.08	1.88	11.79	1086.85
FTSE Eurobloc 100	1082.22	−0.44	−4.54	1.62	1.57	1079.89
FTSE EuroMid	1272.55	+0.56	+7.06	2.69	8.21	1327.50
FTSE EuroMid Eurobloc	1222.48	+0.23	+2.80	2.50	5.67	1254.24
FTSE EuroMid Ex UK	1288.10	+0.41	+5.23	2.31	5.80	1317.84
FTSE Eurotop 300 Regions						
Eurobloc	1329.10	−0.36	−4.79	1.88	2.34	1357.07
UK	1274.65	−0.86	−11.32	2.15	10.57	1350.39
Europe Ex-Eurobloc	1284.28	−0.59	−7.60	1.90	8.31	1338.39
Europe Ex-UK	1314.75	−0.24	−3.13	1.75	2.32	1341.82
FTSE Eurotop Industry Sectors						
RESOURCES	1023.42	−0.18	−1.88	2.73	3.69	1074.78
Mining	1022.40	+1.11	+11.29	3.36	21.37	1074.90
Oil & Gas	984.73	−0.22	−2.15	2.71	2.62	1012.05
BASIC INDUSTRIES	1178.60	+1.13	+13.13	2.44	6.95	1211.49
Chemicals	901.40	+1.28	+11.41	2.37	2.93	920.62
Construction & Bld Matls	1083.83	−0.24	−2.57	2.17	3.98	1098.72
Forestry & Paper	1008.65	−3.55	−34.84	3.83	38.86	1086.47
GENERAL INDUSTRIALS	1172.25	−0.78	−9.24	2.34	5.60	1203.18
Aerospace & Defence	798.67	−1.32	−10.67	2.09	3.84	813.65
Diversified Industrials	985.53	−1.42	−13.88	2.10	0.00	987.62
Electronic & Elect Equip	1108.84	−0.27	−3.03	1.70	0.80	1123.60
Engineering & Machinery	1087.69	−0.36	−3.84	4.04	5.83	1109.06
CYCLICAL CONS GOODS	1395.71	−0.88	−12.22	2.39	0.60	1403.95
Automobiles	1009.80	−0.84	−8.57	2.23	0.53	1018.73
Household Goods & Texts	1387.78	−1.09	−15.26	2.05	0.00	1399.63
NON-CYC CONS GOODS	1244.33	−0.06	−0.76	1.47	5.51	1284.57
Beverages	935.90	+0.44	+4.06	2.43	13.32	955.78
Food Producers & Process	835.06	+1.96	+17.98	1.97	1.41	847.48
Health	1082.99	−0.43	−4.64	1.00	0.00	1099.20
Packaging	800.49	−0.01	−0.06	1.12	0.00	801.49
Personal Care & Hse Prods	1163.45	−0.89	−10.42	0.93	1.94	1175.48
Pharmaceuticals	1141.20	−0.74	−8.50	1.21	5.22	1152.74
Tobacco	1307.88	−0.70	−9.20	3.35	26.75	1358.97
CYCLICAL SERVICES	1366.03	−1.00	−13.77	1.60	5.09	1410.44
Distributors	662.03	+2.17	+14.09	1.41	0.00	669.46
General Retailers	1182.74	+0.06	+0.67	1.82	3.04	1190.13
Leisure Entertmt & Hotels	1049.33	−1.86	−19.88	1.83	8.72	1073.92
Media & Photography	1262.62	−1.19	−15.18	1.67	6.39	1282.74
Rests, Pubs & Breweries	875.31	−2.07	−18.52	2.68	3.71	904.91
Support Services	1045.42	−2.01	−21.40	1.24	2.82	1059.28
Transport	999.57	−0.61	−6.15	2.26	5.18	1023.33
NON-CYCLICAL SERVS	1426.13	−0.69	−9.98	1.16	0.48	1468.40
Food & Drug Retailers	1123.69	+0.86	+9.58	1.68	0.51	1141.40
Telecommunications Servs	1405.71	−1.02	−14.44	1.06	0.43	1427.13
UTILITIES	1371.25	−1.63	−22.65	2.91	8.10	1462.46
Electricity	1044.34	−1.85	−19.63	3.10	5.57	1083.19
Gas Distribution	1149.77	−0.83	−9.57	1.44	8.21	1274.78
Water	858.78	−1.88	−16.54	5.22	5.94	904.99
FINANCIALS	1395.72	−0.52	−7.23	2.05	7.46	1442.03
Banks	1010.08	−0.29	−2.94	2.37	7.23	1032.55
Insurance	1018.39	−1.07	−10.97	1.33	1.91	1032.60
Life Assurance	1130.43	−0.13	−1.42	1.76	8.24	1151.43
Investment Companies	1051.47	+0.69	+7.17	2.17	0.00	1076.89
Real Estate	756.12	−1.66	−12.76	2.80	1.67	777.61
Speciality & Other Fin	1020.50	−1.43	−14.82	2.22	2.94	1040.58
INFORMATION TECH	1018.31	−0.35	−3.61	0.82	4.42	1025.65
Information Tech Hardware	1153.30	−0.31	−3.58	0.89	6.24	1163.20
Software & Computer Serv	704.93	−0.52	−3.71	0.56	0.15	706.73

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) €20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open Int.
Jun	3010.0	3015.0	-15.0	3015.0	3010.0	5	5773

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) €10 per index point

	2800 C	2800 P	2850 C	2850 P	2900 C	2900 P	2950 C	2950 P	3000 C	3000 P	3050 C	3050 P	3100 C	3100 P	3150 C	3150 P
Apr	228	3	179	4	129	5	82	9	41	19	15	42	5	87	374	15
May	291	32	218	42	172	53	137	68	105	87	79	111	57	140	319	3

Est vol total3 . Prev day's open interest total: 17,366 . Premiums shown are based on settlement prices.

OTHER INDICES

	Apr 14	Apr 13	Apr 12	1999 High	1999 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3700.0	3723.36	3682.09	3723.36	3260.29	3729.36	2433.07
DJ Euro Stx 50	3699.33	3725.40	3698.16	3725.40	3325.56	3725.4	2419.23
MSCI Europe	(a)	1271.09	1260.51	1289.81	1153.00	1315.55	510.78

Source: Financial Times Information. *Subject to revision next day. (a) unavailable.

Pfandbrief success encourages imitators

Few are smiling condescendingly about German 'fands' as they start featuring more in portfolios, writes **Uta Harnischfeger**

The introduction of Europe's single currency has given German Pfandbriefe a more worldly appeal – at least between Helsinki and Madrid.

While Americans still call Pfandbriefe "fands" and seldom know what to make of them, the bonds backed by mortgages or public-sector debt are starting to feature prominently in the portfolios of quite a few European fund managers in addition to their traditional German buyers.

No doubt the common currency will also spur other cross-border products such as corporate bonds and asset- and mortgage-backed securities. But for now, the euro is boosting Pfandbrief volumes, attracting new customers and encouraging copycats.

Long a product that earned condescending smiles from international fund managers and banks, Pfandbriefe had already established themselves before January 1 as the number one alternative to non-government bonds in the euro-zone. With a volume of more than €1,000bn ($1,080bn), the Pfandbrief market can no longer be overlooked.

When setting up indices for euro-zone spread products, international banks now include Pfandbriefe. Morgan Stanley's credit index for euro-zone spread products, for example, contains roughly 35 per cent Pfandbriefe.

Because many funds directly or indirectly link their performance to such an index, more European funds will buy Pfandbriefe. In addition, the European Union's guideline for investment funds says that investment funds can hold up to 25 per cent Pfandbriefe in their portfolios, while they can only hold 5 per cent of paper from one individual issuer.

Before the euro's launch, a French insurance company was likely to have been restricted from putting too much money in non-franc-denominated paper.

Since all Pfandbriefe must now be denominated in euros, and all outstanding jumbo Pfandbriefe were redenominated into euros on January 4, the currency restrictions no longer exist.

So-called jumbos must have an issue size over DM1bn and a AAA rating. Only outstanding Pfandbriefe of the traditional kind, which are smaller and not necessarily AAA rated, can remain denominated in D-Marks until 2002.

The euro has also boosted the volume of individual issues. While the average issue size for jumbos used to vary between DM1bn and DM3bn, mortgage banks now issue the equivalent in euros.

Deutsche Pfandbrief- und Hypothekenbank (Depfa), the most prominent Pfandbrief issuer, regularly issues jumbos with a volume of €3bn. The doubling in volume of the average Pfandbrief has also doubled the average order size, and, naturally, outstanding volumes.

In January and February, German mortgage banks issued Pfandbriefe with a total volume of €24bn and €22bn, compared to €13bn and €12bn in the first two months of 1998.

Larger volumes also make life easier for marketmakers, particularly when Pfandbriefe are used in the repurchase market as collateral. Over the last year, there has been a marked drive to boost the repurchase market for jumbos.

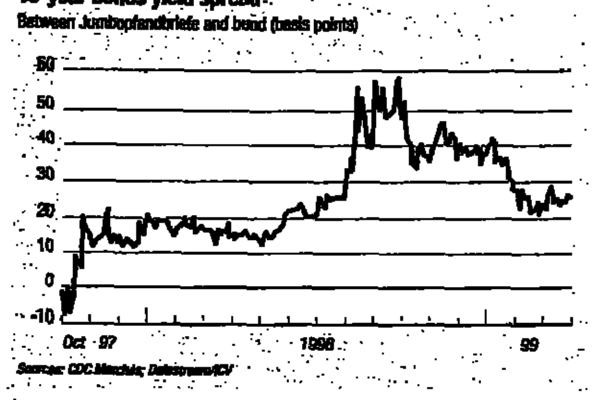
A rising number of Pfandbrief issuers explicitly guarantee repo activities for their jumbos and appoint marketmakers who are then obliged to state prices. The European Central Bank further supported the creation of a healthy repo market when it granted Pfandbriefe Tier 1 status and thus allowed them to be used as European-wide collateral, at par with government bonds.

In a market where liquidity is the *raison d'être*, large volumes make a product more attractive and more resistant to crises. At the peak of last year's emerging market crisis, spreads between government bonds and Pfandbriefe rocketed to above 60 basis points.

Meanwhile, there is evidence that rising volumes have boosted Pfandbrief resistance. When last week's rate cut by the European Central Bank caused a run on long-term government bonds and a brief squeeze, which would naturally widen the spread between bunds and Pfandbriefe, Pfandbriefe remained unfazed and spreads hardly widened.

The growing popularity of Pfandbriefe is also sparking the interest of neighbours. With the exception of a small Danish Pfandbrief market, so far they have been a truly German phenomenon. Recently, the Spanish bank Argentaria issued its first set of Cedulas Hipotecarias and French banks are expected to issue their first Obligations Financiers in October, if the bill passes into legislation smoothly.

10-year bonds yield spread
Between Jumbopfandbriefe and bund (basis points)



Source: CDC Marchés; Datastream/ICV

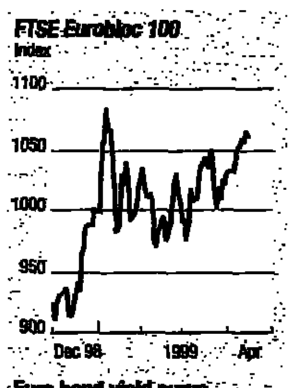
CURRENCIES, MONEY & BONDS

EURO-ZONE BONDS

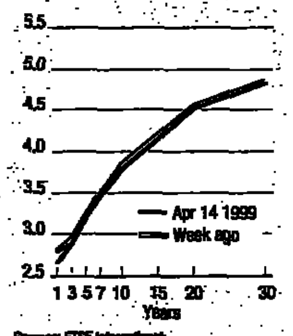
Apr 14	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
■ SOVEREIGNS								
UK	01/01	4.250	AAA	102.816	2.80	+0.01	−0.54	−0.15
Denmark	01/02	4.750	AA+	104.307	3.07	−0.01	−0.19	+0.18
Sweden	02/01	5.000	AA+	103.842	2.89	−0.02	−0.27	+0.14
Greece	11/06	8.750	BBB	115.747	4.27	+0.02	−0.24	+0.79
■ SUPRANATIONALS								
ADB	10/07	5.500	AAA	109.620	4.13	+0.00	−0.31	+0.53
EIB	04/08	5.000	AAA	107.479	3.99	+0.00	−0.30	+0.29
Eurofima	12/09	5.625	AAA	111.941	4.31	+0.00	−0.30	+0.51
World Bank	04/05	7.125	AAA	118.303	3.66	+0.02	−0.19	+0.31
■ UTILITIES								
EDF	10/03	3.750	n/a	102.164	3.22	+0.03	−0.19	+0.17
TEPCO	02/03	4.750	AA	104.093	3.59	+0.00	−0.13	+0.54
Quebec Hydro	03/08	5.375	A+	106.893	4.42	+0.00	−0.31	+0.72
Norsk Hydro	10/09	7.250	A	101.785	3.20	−0.01	−0.33	+0.57
■ FINANCIALS								
Bad Wurtt	02/10	5.375	AAA	108.916	4.32	−0.01	−0.34	+0.45
OKB	08/07	5.750	AAA	112.193	4.01	−0.02	−0.22	+0.41
Credit Local	04/08	5.250	AA+	107.781	4.20	+0.01	−0.30	+0.50
Abbey Nat	01/09	5.000	AA	102.842	4.63	+0.00	−0.21	+0.62
■ INDUSTRIALS								
Unilever	10/01	5.125	AAA	104.882	3.12	−0.02	−0.25	+0.37
McDonalds	03/05	5.125	AA	105.574	4.23	+0.01	−0.24	+0.53
Philip Morris	08/08	5.625	A	105.508	4.86	+0.00	−0.18	+1.16
BAT Int Fin	02/05	5.375	A-	104.499	4.53	−0.02	−0.31	+1.15
■ PFANDBRIEFE								
Rhein Hypo	12/01	5.500	n/a	106.139	3.02	+0.00	−0.23	+0.27
Eurohypo AG	01/04	5.000	n/a	105.808	3.59	+0.01	−0.21	+0.18
Bayer Vereins	01/08	5.000	n/a	[illegible]	[illegible]	[illegible]	−0.20	+0.29
Depfa	07/08	4.750	n/a	104.403	4.16	+0.03	−0.14	+0.46
■ HIGH YIELD								
Gebeit	04/07	10.125	B+	115.000	8.13	+0.00	−0.16	+2.53
Colt Telecom	11/07	8.875	n/a	106.187	7.87	+0.01	+0.11	+4.27
Impress Metal	05/07	9.875	B	112.800	8.56	−0.17	−0.47	+3.35
Remy Cointreau	07/05	10.000	B-	106.000	8.73	−0.04	−1.16	+5.38

Standard & Poor's ratings. Source: Interactive Data/FT Information

FTSE Eurobloc 100
Index



Euro bond yield curve
Per cent



Sources: FTSE International; Interactive Data/FT Information

EURO SPOT FORWARD AGAINST THE EURO

Apr 14		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA
Europe												
Czech Rep.	(Koruna)	37.8331	−0.2089	064 - 598	38.0610	37.8050	37.9816	−4.7	38.2483	−4.4	39.3841	−4.1
Denmark	(DKr)	7.4341	+0.0029	299 - 383	7.4415	7.4290	7.4371	−0.5	7.4420	−0.4	7.4620	−0.4
Greece	(Dr)	324.168	−0.3290	851 - 485	324.950	323.805	326.0132	−8.8	329.4143	−6.5	342.1507	−5.5
Hungary	(Forint)	253.367	−0.5980	188 - 545	255.430	253.140	256.0975	−12.9	261.3676	−12.6	284.1252	−12.1
Norway	(NKr)	8.3337	−0.0273	281 - 392	8.3650	8.3100	8.3640	−4.4	8.4104	−3.7	8.5848	−2.8
Poland	(Zloty)	4.2925	−0.0038	854 - 996	4.3015	4.2850	-	-	-	-	-	-
Romania	(Leu)	16113.82	+311.1200	828 - 997	-	-	-	-	-	-	-	-
Russia	(Rouble)	27.8924	−0.0442	306 - 542	28.0083	27.8228	-	-	-	-	-	-
Slovakia	(Koruna)	44.8343	−0.0655	678 - 008	45.0810	42.3274	-	-	-	-	-	-
Sweden	(SKr)	8.9321	−0.0154	242 - 399	8.9430	8.9058	8.9346	−0.3	8.9378	−0.3	8.9572	−0.3
Switzerland	(SFr)	1.6045	+0.0009	035 - 054	1.6058	1.6028	1.6022	1.7	1.5979	1.6	1.5798	1.5
UK	(£)	0.6683	+0.0008	679 - 687	0.6707	0.6682	0.6698	−2.7	0.6728	−2.6	0.6851	−2.5
Americas												
Argentina	(Peso)	1.0810	+0.0020	807 - 813	1.0816	1.0765	-	-	-	-	-	-
Brazil	(R$)	1.7973	−0.0020	941 - 005	1.8066	1.7858	-	-	-	-	-	-
Canada	(C$)	1.6144	+0.0082	134 - 154	1.6157	1.6049	1.6172	−2.1	1.6223	−2.0	1.6448	−1.9
Mexico	(New Peso)	10.2813	+0.0303	730 - 895	10.2933	10.2340	10.4497	−19.7	10.7703	−19.0	12.4036	−20.6
USA	($)	1.0811	+0.0020	808 - 814	1.0818	1.0767	1.0832	−2.3	1.0874	−2.3	1.1075	−2.4
Pacific/Middle East/Africa												
Australia	(A$)	1.6919	−0.0006	906 - 931	1.6951	1.6879	1.6949	−2.1	1.7007	−2.1	1.7270	−2.1
Hong Kong	(HK$)	8.3780	+0.0155	751 - 809	8.3810	8.3545	8.3942	−2.3	8.4319	−2.6	8.6825	−3.6
India	(Rs)	46.2117	+0.0877	826 - 407	46.2500	46.0828	46.5400	−8.5	47.2268	−8.8	50.9239	−10.2
Indonesia	(Rupiah)	9324.50	−79.4300	786 - 115	9383.10	9287.20	9551.20	−29.2	9965.63	−27.5	11766.84	−26.2
Israel	(Shk)	4.3611	+0.0144	555 - 668	4.3675	4.3351	-	-	-	-	-	-
Japan	(Y)	128.359	−1.3270	280 - 438	129.200	128.200	128.0834	2.6	127.5457	2.5	125.1045	2.5
Malaysia	(M$)	4.1082	+0.0072	338 - 367	4.1106	4.0915	-	-	-	-	-	-
New Zealand	(NZ$)	1.9936	+0.0024	912 - 959	1.9965	1.9875	1.9968	−1.9	2.0029	−1.9	2.0358	−2.1
Philippines	(Peso)	41.2440	−0.1377	704 - 176	41.4329	40.9146	41.5682	−9.4	42.1922	−9.2	44.8823	−8.8
Saudi Arabia	(SR)	4.0545	+0.0077	528 - 561	4.0573	4.0381	4.0644	−2.9	4.0863	−3.1	4.2004	−3.6
Singapore	(S$)	1.8304	−0.0224	293 - 314	1.8440	1.8250	1.8278	1.7	1.8248	1.3	1.8203	0.6
South Africa	(R)	6.5731	−0.0307	605 - 857	6.7575	6.5474	6.6395	−12.1	6.7806	−11.4	7.2893	−10.9
South Korea	(Won)	1314.83	−3.3900	425 - 542	1320.88	1313.50	-	-	-	-	-	-
Taiwan	(T$)	35.6223	+0.0190	102 - 343	35.6430	35.5810	35.6917	−2.3	35.8501	−2.6	36.7179	−3.1
Thailand	(Bt)	40.6656	−0.2143	165 - 147	40.8477	40.5103	40.7720	−3.1	41.0151	−3.4	42.3439	−4.1
UAE	(Dirham)	3.9709	+0.0076	697 - 721	3.9852	3.9340	3.9793	−2.5	3.9960	−2.5	4.0804	−2.8

Euro Locking Rates: Austrian Schilling 13.7603, Belgium/Luxembourg Franc 40.3399, Finnish Markka 5.94573, French Franc 6.55957, German Mark 1.95583, Irish Punt 0.787564, Italian Lira 1936.27, Netherlands Guilder 2.20371, Portuguese Escudo 200.482, Spanish Peseta 166.386. Bid/offer spreads in the Euro Spot table show only the last three decimal places. Bid, offer, mid spot rates and forward rates are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the FT

For real-time FTSE Eurotop 300 index quotes call FT Cityline on 0906 843 5920. Calls are charged at 60p per minute at all times.

FTSE EUROTOP 300

Name	Price (Euro)	Chge + or -	Mkt cap Euro(bn)	Vol (m)	Yld
AEROSPACE & DEFENCE					
AUTOMOBILES					
BANKS					
BEVERAGES					
CHEMICALS					
CONSTRUCTION & BUILDING					
DISTRIBUTORS					
DIVERSIFIED INDUSTRIALS					
ELECTRICITY					
ELECTRONIC & ELECTRICAL EQUIPT					
ENGINEERING & MACHINERY					
FOOD & DRUG RETAILERS					
FOOD PRODUCERS & PROCESSORS					
FORESTRY & PAPER					
GAS DISTRIBUTION					
GENERAL RETAILERS					
HEALTH					
HOUSEHOLD & TEXTILES					
I.T. HARDWARE					
INSURANCE					
INVESTMENT COMPANIES					
LEISURE ENTERTAINMENT & HOTELS					
LIFE ASSURANCE					
MEDIA & PHOTOGRAPHY					
MINING					
OIL & GAS					
PACKAGING					
PERSONAL & HOUSEHOLD PRODUCTS					
PHARMACEUTICALS					
REAL ESTATE					
RESTAURANTS PUBS & BREWERIES					
SOFTWARE & COMPUTER SERVICES					
SPECIALITY & OTHER FINANCE					
SUPPORT SERVICES					
TELECOMMUNICATION SERVICES					
TOBACCO					
TRANSPORT					
WATER					

[illegible]

Notes
Price data and market capitalisation supplied by FTSE International. Market capitalisation figures are based on shares in issue. [illegible] Stocks in bold type are domiciled in Euro countries. Trading volumes and yields derived from local domestic markets and supplied by Financial Times Information. Company classifications are based on those used for the FTSE Eurotop share indices.

Chinese bank plans $500m global bond

By James Harding in Beijing

China Development Bank, the main channel of government funding for the giant Three Gorges dam, is planning to launch a $500m global bond next month.

The bank will be the first Chinese financial institution to issue a global bond since the outbreak of the Asian crisis in the middle of 1997. If successful, the debt issue could prompt other Chinese borrowers to return to the global capital markets.

Some of the proceeds are likely to be directed to the huge and highly controversial Three Gorges hydro-power plant, which has run into fund-raising difficulties in a critical year of construction. Officials at the world's largest civil engineering project said last month the $24.5bn Three Gorges development is facing an Rmb35bn ($1.9bn) shortfall.

Three Gorges, which has budgeted on borrowing $5.5bn overseas, has also faced problems raising funds abroad. Foreign banks, particularly in the US, have grown increasingly unwilling to be seen to be participating in Three Gorges financing, which could damage their reputations with some domestic customers that oppose the project largely on environmental grounds.

China Development Bank, the policy bank for infrastructure lending formerly known as the State Development Bank, is committed to lend Rmb130bn, or 65 per cent, of the funds for the Three Gorges project.

The bond issue is intended to take advantage of the improvement in investor sentiment towards Chinese risk. The bank had to postpone the launch on several occasions, particularly after the abrupt closure last year of Gitic, a prominent Chinese investment company, rattled international confidence in the creditworthiness of Chinese borrowers.

The details of the issue are still to be finalised. Merrill Lynch and Salomon Smith Barney are co-lead managers. The bond is likely to have a maturity of five to 10 years. Pricing will be made public in May.

A successful issue could prompt China International Trust and Investment Corporation (Citic), the largest state investment company, to revive plans for a global bond issue that were put on hold late last year.

As a government policy bank, China Development Bank is treated as quasi-sovereign risk. Standard & Poor's, the credit rating agency, has rated China Development Bank at BBB plus, the same as China's sovereign debt.

However, the markets still make a distinction between the policy bank and a strict government issue, pricing the 10-year bond issued by the State Development Bank in January 1997, the last time it made a global issue, at about 60 basis points over China's 2008 sovereign debt. Moody's, another agency, rates the China Development Bank as Baa1, a notch below the sovereign rating.

China issued a 10-year sovereign bond at the end of last year, which just after the launch was trading at around 280 basis points over US Treasuries.

Big-volume issuance continues

NEW ISSUES

By Khozem Merchant

Recent big-volume issuance continued yesterday with bumper bonds from Italy, Belgium, Vivendi, a French utility, and Conoco, the US oil company.

Conoco led the way with a $4bn multi-tranche global issue of various maturities, which will be priced today: a $1.35bn five-year, a $750m 10-year and a $1.9bn 30-year bond.

"This shows there is keen demand for new credits," said a banker, a reference to Conoco's first visit to the debt market since it was spun off through an initial public offering from DuPont last year.

The heavy dollar issuance has been encouraged by Kosovo-induced "safe-haven status"; investors are also excited by wider credit spreads in the US and widening yield differentials between Treasuries and bunds, in addition to the interest rate environment in Europe and the US.

European accounts were also attracted to the super-liquidity of large offerings, such as Conoco's and, earlier this week, a $3bn add-on by Freddie Mac and a $1bn offering by the European Investment Bank.

Vivendi was one of several big euro issuers, including Italy with a €1bn 20-year FRN. Vivendi launched the largest-ever convertible bond, a €2.6bn issue that highlights recent strong primary issuance of this type of instrument. The proceeds will be used to finance about 40 per cent of Vivendi's $6.2bn acquisition of US Filter, a private water company in the US.

Société Générale, joint lead manager with Goldman Sachs, said a "dual-play" mechanism had been devised for the issue. This would allow investors either to convert into Vivendi's existing shares or those of a subsidiary, Vivendi Environment, at a 5 per cent discount to its IPO. The flotation could take place within five years.

Belgium unveiled the first euro-denominated FRN by a euro-zone member. The €2bn three-year issue, which will be priced tomorrow at about three-month euribor minus 10 basis points, is designed to achieve several strategic targets.

Foremost, in a market with a scarcity of sovereign FRNs, is to achieve a liquid benchmark. It is also designed to diversify the country's general funding post-euro. To date, Belgium debt is heavily placed domestically and in Luxembourg.

The combination of two factors – structural (the absence of a sovereign FRN in euro) and cyclical (interest rate uncertainty) made the floater timely, said Louis du Montpellier, spokesman for the treasury. He said the interest rate uncertainty made it a "perfect defensive, liquid instrument because it does not expose investors to swings in interest rates".

Abigail Hofman at Barclays Capital, joint lead manager with Deutsche Bank, said many accounts "purchased FRNs on an asset allocation basis rather than an interest-rate outlook".

Central banks and bank treasuries use sovereign FRNs as cash management tools, she said, and the Belgium FRN was perfect for such accounts.

Argentina added $500m to a $1bn bond while the province of Buenos Aires completed an Argentine day, with a €150m offering priced to yield 142 basis points over the Argentina 2004 issue.

Bankers said that the province's bond sought to take advantage of appetite for euro-denominated paper and "high yielding non-sovereign assets".

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Republic of Argentina(a)	500	11.75#	102.375	Apr 2009	undisci	+623(Nov08)	Chase/Goldman Sachs
Republic of Austria	500	5.50	99.7807R	Apr 2006	0.30R	+48(4¾Feb04)	Deutsche Bank
EUROS(e)							
Kingdom of Belgium‡	2bn	(b)	(b1)R	Apr 2002	0.075R	-	Barclays/Deutsche
Republic of Italy‡	1bn	(c)	99.95	May 2019	undisci	-	ING-Barings-BBL
Crédit Local de France	1bn	(d)	100.055R	May 2001	0.08R	-	CDC Marchés
3CIF(f)	500	4.50	99.449R	Apr 2011	0.40R	+52(5½Apr11)	CDC Marchés
BNG(g)	500	4.25(l)	101.217R	Jan 2009	0.325R	+28(3¾Jan09)	ABN/Goldman/Warburg
Deutsche Finance Neths	500	3.50	99.95R	Apr 2004	0.25R	+40(3½Nov03)	Deutsche Bank
CNP Assurances(f)	450	4.625	99.694R	May 2009	0.40R	+74(4%Apr04)	CDC Marchés/JP Morgan
Natexis Banque‡	400	(h)	99.875R	May 2004	0.175R	-	ABN Amro/CCBP
Region of Sicily‡	300	(j1)	(j1)R	Apr 2009	0.40R	-	Merrill Lynch
Region of Sicily(f)	200	(j2)	(j2)R	Apr 2009	0.40R	(j2)(Apr04)	Merrill Lynch
LTR Finance(k)‡	206.8	(k1,s)	100.00	Apr 2007	0.35	-	Deutsche Bank
Prov of Buenos Aires(m)	150	9.75	99.75R	May 2004	0.75R	+142(9½-04)	CSFB/JP Morgan
BCEE‡	80	(n)	100.00	May 2009	0.40	-	Morgan Stanley DW
BCEE‡	20	(n)	100.00	May 2014	0.54	-	Morgan Stanley DW
3CIF(o,f)	84.7	5.25	106.773R	Apr 2008	0.35R	+47(5¼Apr08)	CDC Marchés
STERLING							
BNG	200	5.20(s)	99.392	Dec 2028	0.45	+75(6%Dec28)	JP Morgan
NEW ZEALAND DOLLARS							
HypoVereinsbank	100	6.00	100.925	May 2004	1.875	-	TD Securities

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Fungible with $1.5bn. Plus 15 days accrued. b) 3-mth Euribor -12½bp. b1) Priced today at Euribor -10bp area. c) 4% in yr 1, then 0.78 x 10-yr CMS, min 4%. d) 3-mth Euribor flat. e) Spread relates to German govt bonds unless stated. f) Spread re French govt bonds. g) Fungible with €1bn. Plus 138 days accrued. h) 3-mth Euribor +12½bp. j1) Priced Friday at 6-mth Euribor +45-50bp area. j2) Priced Friday at OATs +45-50bp. k) Secured on auto receivables originated by Sofinloc SA entities. Av life 3.14 yrs. 10% cleanup call. k1) 3-mth Euribor +38bp. k2) Also issued: junior class, €6.3m, 3ME +65bp, 4.77 yrs, par. l) Long 1st coupon. m) Spread re Argentina sovereign bond. n) 3-mth Euribor +33bp. o) Fungible with FFr2bn, Fr 500m and DM750m to take total to €1bn on 25/4/99. Plus 10 days accrued. s) Short 1st coupon.

Liffe to reduce size of board

By Vincent Boland

Shareholders of the London International Financial Futures and Options Exchange voted overwhelmingly yesterday to reduce the size of its board as part of a restructuring of the market under way.

Liffe's board is to be cut from 22 members to 15 from its next annual general meeting in May, when the number of directors elected by its shareholders will be reduced from 17 to 10. This is part of its plan to become more competitive with Eurex, Europe's biggest futures market.

Liffe has accelerated the introduction of electronic trading for its products and announced 600 job cuts. Shareholders have already approved a corporate restructuring plan, which includes restructuring its share capital and greater flexibility to trade its shares.

Brian Williamson, Liffe chairman, said the smaller board would "improve the effectiveness and efficiency of its decision-making".

● EuroMTS, an electronic system for wholesale trading in benchmark Italian, French and German government bonds, has claimed a big slice of trading volume since it began operations last week.

It said turnover reached €21bn on Friday, the first day of trading, and €14bn and €17.4bn in the first two days of this week. Average daily trading in Italian government bonds on MTS before it went pan-European stood at €9bn.

"This shows that there is a general interest among market-makers in using the system," said Alexandre Lamfalussy, chairman.

European prices marginally higher

BENCHMARK BONDS

By Arkady Ostrovsky in London and John Labate in New York

European bond prices were marginally higher yesterday, demonstrating surprising resilience to the escalating conflict in Kosovo.

Ifty Islam, at Deutsche Bank, said there was a notable contrast between "relaxed" European bond markets and the euro, which has softened due to growing fears about the possibility of a ground war in the region.

European bonds were hit on Tuesday by reports of clashes spilling into Albania, but recovered some of their value yesterday. German bund futures rose 0.03 to 115.71.

Eastern and Central European markets also responded calmly to the conflict in Kosovo, according to Kasper Bartholdy at CSFB.

UK gilts continued to under-perform European bond markets, with the 10-year yield spread widening to 76 basis points. The 10-year gilt future closed slightly lower at 117.95.

US Treasuries were mixed in thin mid-day trading. The 30-year bond was unchanged at $96\frac{7}{16}$, yielding 5.494 per cent. The 10-year note was down ¼ at $97\frac{9}{16}$, yielding 5.120 per cent, while the two-year note was off $\frac{1}{32}$ at 99%, yielding 4.942 per cent.

Observers said Treasuries weakened under the weight of heavy corporate issues. During the morning session Freddie Mac, the mortgage finance group, sold $3bn in a reopened five-year note issue. Also expected later in the session were $4bn in Conoco bonds.

"It continues to weigh on the market today," said Kevin Logan, senior market economist at Dresdner, Kleinwort Benson in New York.

Japanese government bond prices fell as investors sold bonds at the longer end of the curve, fearing weak demand at next week's auction for 10-year JGBs. The 10-year JGB future fell 0.34 to 133.32.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Apr 14	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	106.6454	4.71	+0.04	+0.01	-0.19	-0.20
	08/08	8.750	125.2007	5.29	+0.01	-0.01	-0.13	-0.31
Austria	03/01	5.250	104.4200	2.82	+0.03	-0.07	-0.30	-1.34
	01/08	5.000	107.4900	3.97	+0.01	-0.04	-0.17	-0.97
Belgium	03/01	5.000	104.0400	2.82	-0.01	-0.12	-0.25	-1.30
	03/09	3.750	97.2900	4.08	-0.01	-0.08	-0.15	-0.86
Canada	12/00	5.000	100.6409	4.58	-0.04	-0.18	-0.44	-0.32
	06/08	6.000	107.9500	4.91	+0.01	-0.08	-0.24	-0.33
Denmark	11/00	9.000	108.8300	3.12	+0.03	-0.10	-0.28	-1.31
	11/09	6.000	115.2200	4.18	-	-0.08	-0.24	-0.90
Finland	06/00	4.000	101.4400	2.72	-	-0.14	-0.27	-1.03
	04/09	5.000	107.7500	4.04	-	-0.07	-0.20	-0.81
France	07/00	4.000	101.5700	2.67	-0.01	-0.15	-0.32	-1.45
	04/06	7.250	123.1100	3.48	-0.01	-0.07	-0.22	-1.18
	04/09	4.000	100.5400	3.93	-0.01	-0.08	-0.18	-0.95
	04/29	5.500	110.1400	4.85	-	-0.05	-0.19	-0.55
Germany	05/01	5.000	104.3900	2.80	-	-0.11	-0.23	-1.19
	01/06	6.000	114.1400	3.59	-	-0.08	-0.22	-1.10
	01/09	3.750	99.5300	3.81	-0.01	-0.09	-0.20	-1.05
	07/28	4.750	99.1900	4.80	-0.01	-0.06	-0.21	-0.80
Greece	03/00	9.800	100.7000	8.90	-0.05	-0.16	-0.26	-0.94
	01/09	6.300	104.0000	5.75	-0.05	-0.07	-0.17	-2.51
Ireland	10/01	6.500	108.5800	2.89	-0.01	-0.08	-0.28	-1.83
	08/08	6.000	115.9700	3.92	-0.01	-0.08	-0.27	-1.10
Italy	07/01	4.500	103.3800	2.90	-	-0.10	-0.25	-1.62
	07/03	4.500	104.9100	3.25	+0.01	-0.07	-0.26	-1.47
	05/09	4.500	103.7000	4.05	-	-0.06	-0.19	-1.00
	11/27	6.500	121.8500	5.05	-0.01	-0.08	-0.16	-0.49
Japan	12/00	6.900	111.1300	0.20	-	-	-0.05	-0.36
	12/03	4.700	115.1630	0.79	+0.02	-0.03	-0.20	-0.35
	06/08	1.800	102.4250	1.52	+0.04	-0.02	-0.27	-0.10
	09/18	2.300	98.6390	2.39	+0.04	-0.04	-0.31	-0.10
Netherlands	01/01	9.000	110.4100	2.77	-0.03	-0.12	-0.25	-1.35
	07/09	3.750	98.1200	3.98	-	-0.06	-0.16	-0.87
New Zealand	02/01	8.000	105.5806	4.72	-0.03	-0.03	-0.18	-3.23
	07/09	7.000	110.1373	5.68	-	+0.02	-0.15	-1.26
Norway	05/01	7.000	104.5900	4.66	-	-0.08	-0.24	+0.31
	05/09	5.500	106.3500	4.69	+0.01	-0.05	-0.20	-0.58
Portugal	03/00	5.375	102.3200	2.78	-0.01	-0.06	-0.19	-1.40
	06/08	5.375	108.7500	4.08	-	-0.04	-0.15	-0.90
Spain	01/01	5.000	103.9200	2.71	-0.03	-0.10	-0.26	-1.55
	07/09	0.000	107.4600	4.08	-0.01	-0.22	-0.40	-0.91
Sweden	05/00	10.250	107.3189	2.98	-	-0.03	-0.33	-1.68
	05/08	6.500	117.6680	4.12	-0.02	-0.08	-0.30	-1.03
Switzerland	06/00	4.500	103.7600	1.16	-	-0.15	-0.26	-0.68
	01/08	4.250	116.6000	2.14	-0.01	-0.06	-0.06	-0.80
UK	11/01	7.000	105.1100	4.85	-0.01	+0.09	-0.04	-1.71
	12/03	6.500	107.8800	4.59	-0.03	+0.05	-0.09	-1.27
	12/09	5.750	111.1909	4.42	-	-	-0.11	-1.32
	12/28	6.000	125.7000	4.43	-	+0.01	-0.12	-1.24
US	01/01	4.500	99.2559	4.94	-0.02	-0.03	-0.05	-0.66
	02/04	4.750	98.8541	5.02	+0.03	-0.01	-0.04	-0.65
	11/08	4.750	97.2475	5.12	+0.01	-0.01	-0.02	-0.57
	02/29	5.250	98.4328	5.49	-0.01	-0.03	-0.02	-0.45

London closing * New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

Apr 14	Bid Yield	Spread vs Euros	Spread vs T-Bonds		Bid Yield	Spread vs Euros	Spread vs T-Bonds
Australia	5.31	+1.51	+0.19	Netherlands	3.95	+0.15	-1.17
Austria	3.99	+0.19	-1.13	New Zealand	5.68	+1.88	+0.56
Belgium	4.09	+0.29	-1.03	Norway	4.69	+0.89	-0.43
Canada	4.91	+1.11	-0.21	Portugal	4.10	+0.30	-1.02
Denmark	4.16	+0.36	-0.96	Spain	4.05	+0.25	-1.07
Finland	4.05	+0.25	-1.07	Sweden	4.18	+0.38	-0.94
France	3.94	+0.14	-1.18	Switzerland	2.39	-1.41	-2.73
Germany	3.80	-	-1.32	UK	4.47	+0.67	-0.65
Greece	5.82	+2.02	+0.70	US	5.12	+1.32	-
Ireland	3.95	+0.15	-1.17				
Italy	4.07	+0.27	-1.05				
Japan	1.83	-2.17	-3.49				

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

Apr 14	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB-	92.6000	10.04	-0.01	+1.54	+5.07
Poland	07/04	7.125	BBB-	104.1300	6.16	-0.03	-0.25	+1.14
Russia	06/07	10.000	n/a	35.1400	33.65	-2.51	-9.55	+28.57
LATIN AMERICA								
Argentina	09/27	9.750	BB	87.8000	11.17	+0.01	-0.38	+5.72
Brazil	05/27	10.125	B+	79.7500	12.80	-0.17	-2.15	+7.35
Mexico	05/26	11.500	BB	119.0000	9.53	-	-0.73	+4.10
ASIA								
China	07/06	7.750	BBB+	103.8097	7.05	-0.05	-0.60	+1.99
Philippines	10/16	8.750	BB+	95.5000	9.27	-0.07	-0.57	+4.02
Thailand	04/07	7.750	BBB-	103.3750	7.18	-0.02	-0.31	+2.11
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	101.6262	7.68	+0.03	+0.35	+2.77
South Africa	10/06	8.375	BB+	100.8750	8.22	-0.13	-0.33	+3.16
Turkey	09/07	10.000	B	94.0500	11.10	-0.01	-0.58	+6.02
BRADY BONDS								
Argentina	03/23	5.750	BB	71.6250	8.88	+0.03	-0.13	+3.50
Brazil	04/14	5.000	B+	68.4258	12.25	-0.12	-1.58	+7.04
Mexico	12/19	6.250	BB	81.0000	8.17	-0.07	-0.28	+2.87
Venezuela	03/20	6.750	B+	70.7500	10.14	-0.18	-0.70	+4.82

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France
NOTIONAL EURO BOND FUTURES (MATIF) €100,000
[illegible]

Germany
NOTIONAL EURO BOND FUTURES (EUREX) €100,000 100ths of 100%
[illegible]

Italy
NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)
[illegible]

Spain
NOTIONAL SPANISH BOND FUTURES (MEFF) €100,000
[illegible]

UK
NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%
NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%
LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%
[illegible]

US
US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%
[illegible]

Japan
NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%
[illegible]

Euro
€ BOND FUTURES (MATIF) €100,000
[illegible]

INTEREST RATE SWAPS

[illegible]

US CORPORATE BONDS

Apr 13	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA-	104.7843	5.59	+0.01	-0.10	+5.59
NY Tel	08/25	7.00	A+	99.7143	7.02	+0.03	-0.05	+1.53
CWE	05/06	8.00	BBB	113.3173	6.06	+0.05	-0.14	+0.96
FINANCIALS								
GECC	05/07	8.75	AAA	118.3040	5.87	+0.06	-0.14	+0.77
Banc One	08/02	7.25	A	104.4086	5.75	+0.01	-0.08	+5.75
CNA Fin	01/18	6.95	A-	95.0648	7.44	+0.04	-0.16	+1.95
INDUSTRIALS								
WMX Tech	04/99	6.25	BBB+	100.0000	5.39	-0.14	-0.33	+0.91
Wal Mart	05/02	6.75	AA	103.9530	5.33	-	-0.09	+5.33
Dayton Hud	06/21	9.70	A-	132.3635	6.84	+0.04	+0.01	+1.35
AGENCIES								
FHLMC	04/07	7.14	N/A	108.7418	5.75	+0.05	-0.05	+0.65
SLMA	03/00	7.50	N/A	102.0874	5.08	+0.02	-0.15	+0.68
FNMA	02/18	8.95	N/A	132.4021	6.04	+0.04	-0.04	+0.55
FFCB	06/06	8.95	N/A	118.8401	5.69	+0.05	-0.03	+0.59
HIGH YIELD								
Stone Cont	02/01	9.88	B	101.8750	0.00	-	-	-
AK Stl	12/01	9.13	BB-	107.0000	0.00	-	-	-
Pacafia	06/04	10.75	B-	98.0000	0.00	-	-	-

NY latest. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Close		Treasury Bills and Bond Yields			
Prime rate	7¾	One month	-	Two year	4.94
Broker loan rate	6½	Two month	-	Three year	4.95
Fed.funds	4¾	Three month	4.29	Five year	5.04
Fed.funds at intervention	-	Six month	4.49	10-year	5.13
		One year	4.63	30-year	5.51

INTERNATIONAL BONDS

[illegible]

Source: Interactive Data/FT Information

UK BONDS

FTSE Actuaries Government Securities

Price Indices UK Gilts	Wed Apr 14	Day's chge %	Accrued interest	xd adj ytd	Total Return	Yield	Duration Years	% Weight
1 Up to 5 years (15)	121.33	+0.05	2.46	2.25	1210.56	4.77	2.30	33.29
2 5-10 years (11)	171.10	+0.02	2.98	2.07	1341.80	4.58	5.82	29.63
[illegible]								

UK Indices
[illegible]

UK GILTS PRICES

[illegible]

Other Fixed Interest
[illegible]

Liffe to reduce size of board

CURRENCIES & MONEY

Dollar slides as yen carries the day

MARKETS REPORT

By Alan Beattie

The yen rose yesterday against the dollar as the debate on waning Japanese capital outflows reawakened, and some warned that the yen carry trade was back in fashion.

In another otherwise soporific day in the currency markets, the yen rose to a two-week high against the dollar as the market reacted to news that Japanese life insurance companies were planning to keep more of their money at home.

Combined with research published by ABNAmro which attracted the attention of many in the market by suggesting that the yen carry trade was back in fashion, this recalled for some the events of last October.

With a renewal of leveraged positions in overseas assets based on yen borrowing, a rise in the yen because of capital repatriation could trigger a sell-off in dollars.

But few traders in the markets could bestir themselves to get too excited about the move in the short term, especially given the widespread belief that the Bank of Japan has its intervention gun drawn and ready below the Y110 level.

Although the dollar fell against the yen yesterday, it closed in London at Y118.7, still within the range of the past couple of months and some way from the edge of the Bank of Japan's apparent comfort zone.

■ Tony Norfield, treasury economist at ABN-Amro, said that estimates from the Japan Centre for International Finance suggested that outstanding yen carry trades were now at their highest level since August last year.

Extant positions totalled $18bn in February and March, the JCIF said, after overnight interest rates heading towards zero and the Bank of Japan's apparent policy of putting a floor under the yen increased the attractiveness of the trade.

Mr Norfield said probably half of this was invested in the Nikkei. "But the rest may explain strength in the dollar, especially since available data suggested capital repatriation by the Japanese over that period," he said.

The suggestion compounded news reported in the Nihon Keizai Shimbun newspaper that the five largest life insurance companies in Japan were planning to halve overseas bond purchases in the new fiscal year in favour of domestic assets.

"On top of the results in the recent tankan survey showing large enterprises scaling down their expectations for dollar/yen, this indicates a rise in Japanese risk aversion and is negative for the dollar," said Divyang Shah, strategist at the consultancy IDEA in London.

Mr Norfield said that, although he remained bearish of the yen over the next few months, a lot of factors were now lining up in favour of a yen rise against the dollar and euro. "With sales of euros against the yen connected with the Nissan-Renault deal, and the technical picture suggesting that the dollar has broken through the uptrend line it has established since the Y108 trough, there are risks of a near-term yen rise," he said.

Michael Petley of the ECU Group agreed that the technical pattern was set for dollar weakness. "The yen has sliced through the dollar's uptrend like a hot knife through butter," he said.

■ The Singaporean dollar also made a brave effort to lift the torpor yesterday, breaking out of its recent range and surging up above the S$1.70 level.

The currency was given a lift after Lee Hsien Loong, the deputy prime minister, said on Tuesday that the government was not using a weaker dollar to boost export growth.

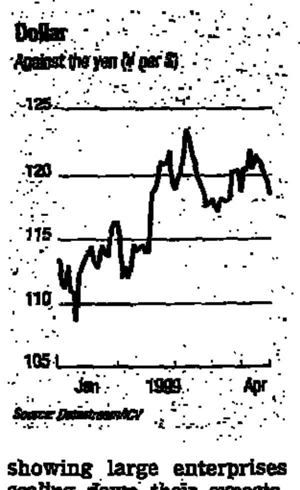
The remark, made at a Merrill Lynch conference in London, combined with the stronger yen to drive the currency higher yesterday. At the end of London trading it was at S$1.6930 against the US dollar.

"In contrast, there were rumours that the monetary authority were buying US dollars as the local currency rose," said Michael Wallace, currency manager at Standard and Poor's MMS.

This gave rise to the ironic possibility that the Singaporean authorities were forced to sell their currency yesterday as a direct result of an assurance that they had not done so recently.

Dollar

Against the yen (Y per $)



Source: Datastream/ICV

■ **POUND IN NEW YORK**

Apr 14	—Latest—	— Prev. close —
£ spot	1.6175	1.6160
1 mth	1.6170	1.6155
3 mth	1.6163	1.6148
1 yr	1.6153	1.6147

■ **OTHER CURRENCIES**

Apr 14	£	$
Czech Rp	58.5697 - 58.6532	34.9800 - 35.0100
Hungary	378.845 - 379.469	234.260 - 234.480
Iran	4924.85 - 4951.83	3000.00 - 3060.00
Kuwait	0.4902 - 0.4957	0.3030 - 0.3051
Peru	5.4014 - 5.4685	3.3400 - 3.3420
Poland	6.4112 - 6.4340	3.9650 - 3.9760
Russia	41.6429 - 41.8305	25.7500 - 25.8600
U.A.E.	5.9398 - 5.9436	3.6725 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Apr 14		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria*	(Sch)	20.5902	-0.0264	781 - 023	20.6552	20.5806	20.5492	2.7	20.4587	2.6	20.0658	2.4	102.4
Belgium*	(BFr)	60.3625	-0.0773	271 - 979	60.5530	60.3265	60.2247	2.7	59.9713	2.6	58.8837	2.4	101.9
Denmark	(DKr)	11.1240	-0.0099	173 - 306	11.1521	11.1165	11.1032	2.2	11.0637	2.2	10.8923	2.1	105.1
Finland*	(FM)	8.8969	-0.0114	917 - 021	8.9250	8.8905	8.8766	2.7	8.8392	2.6	8.679	2.4	80.7
France*	(FFr)	9.8154	-0.0126	098 - 211	9.8464	9.8085	9.793	2.7	9.7518	2.6	9.5749	2.5	105.2
Germany*	(DM)	2.9266	-0.0038	249 - 283	2.9364	2.9240	2.92	2.7	2.9077	2.6	2.8549	2.4	102.9
Greece	(Dr)	485.068	-1.1140	578 - 557	487.887	484.570	486.716	-4.1	489.724	-3.8	499.434	-3.0	62.0
Ireland*	(I£)	1.1785	-0.0015	778 - 792	1.1822	1.1775	1.1758	2.7	1.1709	2.6	1.1496	2.5	92.5
Italy*	(L)	2897.33	-3.7100	563 - 903	2906.48	2895.50	2890.72	2.7	2878.55	2.6	2826.35	2.4	75.1
Luxembourg*	(LFr)	60.3625	-0.0773	271 - 979	60.5530	60.3150	60.2247	2.7	59.9713	2.6	58.8837	2.4	101.9
Netherlands*	(Fl)	3.2975	-0.0043	956 - 994	3.3076	3.2950	3.29	2.7	3.2761	2.6	3.2167	2.5	101.2
Norway	(NKr)	12.4700	-0.0570	613 - 787	12.5580	12.4600	12.4869	-1.6	12.5033	-1.1	12.502	-0.3	94.6
Portugal*	(Es)	299.991	-0.3840	815 - 167	300.936	299.807	299.308	2.7	298.047	2.6	292.642	2.4	91.5
Spain*	(Pta)	248.971	-0.3190	825 - 117	249.750	248.618	248.403	2.7	247.357	2.6	242.872	2.4	76.3
Sweden	(SKr)	13.3655	-0.0402	532 - 777	13.4208	13.3519	13.3389	2.4	13.2875	2.3	13.0748	2.2	81.7
Switzerland	(SFr)	2.4009	-0.0017	993 - 024	2.4103	2.3985	2.392	4.4	2.3755	4.2	2.3061	3.9	105.4
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	103.0
Euro	(€)	1.4964	-0.0019	955 - 972	1.5011	1.4952	1.493	2.7	1.4887	2.6	1.4597	2.4	-
SDR†	-	1.189114	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6175	+0.0010	170 - 180	1.6208	1.6143	-	-	-	-	-	-	-
Brazil	(R$)	2.6695	-0.0064	646 - 943	2.7027	2.6553	-	-	-	-	-	-	-
Canada	(C$)	2.4158	+0.0093	142 - 173	2.4191	2.4073	2.4145	0.6	2.4118	0.7	2.4011	0.6	78.7
Mexico	(New Peso)	15.3844	+0.0257	715 - 972	15.4253	15.3696	15.6007	-16.9	16.0116	-16.3	18.1655	-17.7	-
USA	($)	1.6177	+0.0010	172 - 182	1.6205	1.6145	1.6171	0.4	1.6165	0.3	1.6165	0.1	107.9
Pacific/Middle East/Africa													
Australia	(A$)	2.5316	-0.0042	296 - 336	2.5429	2.5289	2.5304	0.6	2.5284	0.5	2.5209	0.4	82.0
Hong Kong	(HK$)	12.5364	+0.0072	317 - 411	12.5586	12.5125	12.532	0.4	12.5353	0.0	12.6736	-1.1	-
India	(Rs)	69.1486	+0.0427	030 - 942	69.1950	69.1010	69.481	-5.8	70.2093	-6.1	74.3331	-7.5	-
Indonesia	(Rupiah)	13952.69	-136.86	749 - 789	14059.20	13865.30	14258.3	-26.4	14615.4	-24.7	17175.94	-23.1	-
Israel	(Shk)	6.5257	+0.0132	172 - 341	6.5405	6.5125	-	-	-	-	-	-	-
Japan	(Y)	192.070	-2.2330	946 - 194	193.830	191.940	191.22	5.3	189.62	5.1	182.615	4.9	131.3
Malaysia‡	(M$)	6.1473	+0.0038	817 - 865	6.1576	6.1356	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.9831	-0.0003	794 - 867	2.9917	2.9783	2.9811	0.8	2.9776	0.7	2.9716	0.4	93.7
Philippines	(Peso)	61.7154	-0.2851	536 - 771	61.9850	61.4520	62.0585	-6.7	62.7251	-6.5	65.5143	-6.2	-
Saudi Arabia	(SR)	6.0669	+0.0037	642 - 695	6.0786	6.0583	6.0878	-4.2	6.075	-0.5	6.1313	-1.1	-
Singapore	(S$)	2.7388	-0.0371	371 - 404	2.7705	2.7362	2.7288	4.4	2.7125	3.8	2.6571	3.0	-
South Africa	(R)	9.8356	-0.0586	164 - 548	9.8874	9.8020	9.9123	-9.4	10.0506	-8.7	10.6402	-8.2	-
South Korea	(Won)	1967.45	-7.5900	652 - 838	1973.14	1962.30	-	-	-	-	-	-	-
Taiwan	(T$)	53.3032	-0.0398	835 - 229	53.3922	53.1703	53.2852	0.4	53.2985	0.1	53.5567	-0.6	-
Thailand	(Bt)	60.8498	-0.3989	744 - 252	61.1430	60.7220	60.8687	-0.4	60.9749	-0.8	61.8088	-1.6	-

† Rates for Apr 13. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. * EMU member. The exchange rates printed in this table are also available on the Internet at http://www.FT.com.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Apr 14		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan Index
Europe													
Austria*	(Sch)	12.7281	-0.0242	245 - 316	12.7801	12.7233	12.7033	2.3	12.6549	2.3	12.4251	2.4	102.1
Belgium*	(BFr)	37.3136	-0.0708	034 - 241	37.4660	37.3008	37.2412	2.3	37.0992	2.3	36.4256	2.4	102.0
Denmark	(DKr)	6.8764	-0.0106	744 - 784	6.9002	6.8734	6.8658	1.9	6.8441	1.9	6.735	2.0	104.3
Finland*	(FM)	5.4997	-0.0105	982 - 012	5.5222	5.4977	5.489	2.3	5.468	2.3	5.3657	2.4	80.0
France*	(FFr)	6.0675	-0.0115	658 - 692	6.0923	6.0653	6.0557	2.3	6.0326	2.3	5.9225	2.4	104.8
Germany*	(DM)	1.8091	-0.0035	088 - 094	1.8165	1.8084	1.8056	2.3	1.7987	2.3	1.766	2.4	102.5
Greece	(Dr)	299.850	-0.6750	640 - 060	301.210	299.640	300.67	-4.3	302.95	-4.1	308.95	-3.0	81.7
Ireland*	(I£)	1.3727	-0.0026	723 - 731	1.3732	1.3671	1.3754	-2.4	1.3805	-2.3	1.4062	-2.4	-
Italy*	(L)	1791.02	-3.4600	652 - 152	1798.34	1790.36	1787.54	2.3	1780.72	2.3	1748.38	2.4	74.8
Luxembourg*	(LFr)	37.3136	-0.0708	034 - 241	37.4660	37.3008	37.2412	2.3	37.0992	2.3	36.4256	2.4	102.0
Netherlands*	(Fl)	2.0384	-0.0039	378 - 390	2.0467	2.0376	2.0344	2.4	2.0267	2.3	1.9899	2.4	101.2
Norway	(NKr)	7.7085	-0.0400	035 - 115	7.7701	7.7046	7.7215	-2.0	7.7349	-1.4	7.7337	-0.3	93.7
Portugal*	(Es)	185.443	-0.3530	381 - 504	186.200	185.370	185.082	2.3	184.376	2.3	181.029	2.4	92.8
Spain*	(Pta)	153.904	-0.2930	862 - 947	154.530	153.850	153.604	2.3	153.019	2.3	150.246	2.4	75.9
Sweden	(SKr)	8.2620	-0.0300	570 - 670	8.3050	8.2510	8.2483	2.0	8.2198	2.0	8.088	2.1	81.4
Switzerland	(SFr)	1.4841	-0.0020	836 - 846	1.4892	1.4826	1.479	4.1	1.4685	3.9	1.4265	3.9	105.1
UK	(£)	1.6177	+0.0010	172 - 182	1.6205	1.6145	1.6171	0.4	1.6165	0.3	1.6165	0.1	102.8
Euro	(€)	1.0811	+0.0032	801 - 814	1.0818	1.0767	1.0832	-2.3	1.0874	-2.3	1.1075	-2.4	-
SDR†	-	0.73888	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	-	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.6625	-0.0050	600 - 650	1.6700	1.6400	-	-	-	-	-	-	-
Canada	(C$)	1.4933	+0.0049	928 - 938	1.4939	1.4893	1.493	0.2	1.492	0.4	1.4853	0.5	78.8
Mexico	(New Peso)	9.5100	+0.0100	050 - 150	9.5160	9.5030	9.647	-17.3	9.905	-16.6	11.2	-17.8	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	109.4
Pacific/Middle East/Africa													
Australia	(A$)	1.5649	-0.0036	642 - 657	1.5736	1.5632	1.5645	0.3	1.564	0.2	1.5634	0.1	82.3
Hong Kong	(HK$)	7.7495	-0.0004	490 - 500	7.7506	7.7485	7.7484	0.2	7.7545	-0.3	7.84	-1.2	-
India	(Rs)	42.7450	-	300 - 600	42.8000	42.7200	42.955	-6.2	43.4325	-6.4	45.3825	-7.6	-
Indonesia	(Rupiah)	8625.00	-90.00	000 - 500	8700.00	8550.00	8817.5	-26.8	9165	-25.0	10825	-25.3	-
Israel	(Shk)	4.0339	+0.0058	299 - 379	4.0385	4.0053	-	-	-	-	-	-	-
Japan	(Y)	118.720	-1.4550	680 - 760	119.040	118.550	118.285	4.4	117.095	4.4	112.95	4.9	131.7
Malaysia‡	(M$)	3.8000	-	500 - 500	3.8000	3.8000	-	-	-	-	-	-	-
New Zealand	(NZ$)	1.8440	-0.0014	423 - 457	1.8515	1.8385	1.8422	1.2	1.8405	0.8	1.8438	0.2	-
Philippines	(Peso)	38.1500	-0.2000	000 - 000	38.2000	38.1000	38.3725	-7.1	38.8025	-6.8	40.527	-6.2	-
Saudi Arabia	(SR)	3.7502	-0.0001	498 - 506	3.7510	3.7495	3.7522	-0.6	3.7551	-0.5	3.7829	-0.9	-
Singapore	(S$)	1.6930	-0.0240	925 - 935	1.7145	1.6890	1.6874	4.0	1.678	3.5	1.6437	2.9	-
South Africa	(R)	6.0800	-0.0400	700 - 900	6.1025	6.0675	6.1265	-9.2	6.2175	-9.0	6.582	-8.3	-
South Korea	(Won)	1216.20	-5.4500	600 - 640	1221.00	1215.00	-	-	-	-	-	-	-
Taiwan	(T$)	32.9500	-0.0450	450 - 550	33.0200	32.9300	32.95	0.0	32.97	-0.2	33.155	-0.6	-
Thailand	(Bt)	37.6150	-0.2700	800 - 500	37.8500	37.5000	37.64	-0.8	37.72	-1.1	38.225	-1.6	-

† SDR rate per $ for Apr 13. ‡ Official rate set by Malaysian government. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. J.P. Morgan nominal indices Apr 13: Base average 1990=100. Bid, offer, mid spot rates and forward rates in both this and the pound tables are derived from the WM/REUTERS 4pm (London time) CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T. * EMU member. The exchange rates printed in this table are also available on the Internet at http://www.FT.com.

WORLD INTEREST RATES

MONEY RATES

Apr 14	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Euro-zone	2⅞	2¾	2¾	2¾	2⅞	-	2.50	3.00
Switzerland	⅞	⅞	1	1	1¼	-	1.00	-
US	4⅞	4⅞	4⅞	5	5¼	-	4.50	-
Japan	¼	⅛	⅛	⅛	⅛	-	0.50	-
■ $ LIBOR BBA London								
Interbank Fixing	-	4⅞	5	5⅛	5¼			
US Dollar CDs	-	4.74	4.76	4.78	4.90			
Euro Linked Ds	-	3¼	3¼	3¼	3¼			
SDR Linked Ds	-	3½	3⅝	3⅝	3¾			
BBA Euro Libor	-	2⅞	2⅞	2⅞	2⅞			
Euro Euribor	-	2.632	2.637	2.653	2.709			
EONIA	2.60							
EURONIA	2.5994							

London interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. US $, Euro & SDR Linked Deposits (Ds).

INTERNATIONAL CURRENCY RATES

Apr 14	Short term	7 days notice	One month	Three months	Six months	One year
Euro	2¾ - 2⅝	2¾ - 2⅝	2¾ - 2⅝	2⅞ - 2¾	2⅞ - 2¾	2⅞ - 2¾
Danish Krone	3⅛ - 3	3¼ - 3⅛	3¼ - 3⅛	3¼ - 3⅛	3⅜ - 3¼	3⅜ - 3¼
Sterling	5⅝ - 5⅜	5¼ - 5⅛	5⅛ - 5⅜	5⅛ - 5¼	5⅛ - 5¼	5¼ - 5⅛
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canadian Dollar	4⅝ - 4¼	4⅝ - 4¼	4⅝ - 4¾	4⅝ - 4½	4⅝ - 4½	4⅝ - 4¾
US Dollar	4⅞ - 4⅜	4⅞ - 4⅝	4⅞ - 4⅝	5 - 4⅞	5⅛ - 5	5⅜ - 5⅛
Japanese Yen	⅛ - ⅛	⅛ - ⅛	⅛ - ⅛	⅛ - ⅛	⅛ - ⅛	¼ - ⅛
Asian $Sing	[illegible]	2 - 1	1⅛ - 1⅛	2 - 1⅞	2⅛ - 1⅞	2⅜ - 2

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ **THREE MONTH EURIBOR FUTURES (MATIF)** Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	97.385	97.385	+0.005	97.390	97.380	3,013	42,829
Sep	97.390	97.400	+0.010	97.405	97.390	3,726	30,015

■ **THREE MONTH EURIBOR FUTURES (LIFFE)** €1m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	97.385	97.390	+0.010	97.395	97.375	26963	212316
Sep	97.405	97.400	+0.010	97.410	97.385	20585	210968
Dec	97.170	97.170	-	97.180	97.160	12675	124676
Mar	97.270	97.260	-	97.270	97.250	14443	99618

■ **THREE MONTH EURO LIBOR FUTURES (LIFFE)** €1m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	97.385	97.390	+0.010	97.395	97.385	26	104616
Sep	-	97.400	+0.010	-	-	0	92837
Dec	-	97.170	-	-	-	0	83187
Mar	-	97.260	-	-	-	0	83665

■ **EUROMARK OPTIONS (LIFFE)** €1m 100-rate

Strike Price	CALLS Jun	Sep	Dec	Mar	PUTS Jun	Sep	Dec	Mar
97375	0.040	-	-	-	0.025	-	-	-
97500	0.010	0.045	0.095	0.075	0.120	0.145	0.365	0.315
97625	0.005	-	-	-	0.240	-	-	-
97750	0	0.010	0.020	0.030	0.360	0.380	0.800	0.520

Est. vol. total, Calls 31657 Puts 14940. Previous day's open int., Calls 379119 Puts 181571

■ **THREE MONTH EURO LIBOR OPTIONS (LIFFE)** €1m 100-rate

Strike Price	CALLS Jun	Sep	Dec	Mar	PUTS Jun	Sep	Dec	Mar
97375	0.040	-	-	-	0.025	-	-	-
97500	0.010	0.045	0.095	0.075	0.120	0.145	0.365	0.315
97625	0.005	-	-	-	0.240	-	-	-
97750	0	0.010	0.020	0.030	0.360	0.380	0.800	0.520

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 182182 Puts 56570

■ **THREE MONTH EURO SWISS FRANC FUTURES (LIFFE)** SFr1m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	98.860	98.860	-0.020	98.890	98.850	10469	107998
Sep	98.880	98.900	-0.020	98.920	98.870	5037	70129
Dec	98.540	98.570	+0.030	98.570	98.540	960	23782
Mar	98.590	98.590	+0.030	98.590	98.550	462	14192

■ **THREE MONTH EUROYEN FUTURES (LIFFE)** Y100m 100-rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	99.81	+0.01	-	-	0	n/a
Sep	-	99.77	+0.02	-	-	0	n/a
Dec	-	99.59	+0.03	-	-	0	n/a

* LIFFE futures also traded on APT

■ **EURO SWISS FRANC OPTIONS (LIFFE)** SFr1m 100-rate

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
99000	0.100	0.130	0.070	0.120	0.230	0.500
99125	0.050	-	-	0.185	-	-

Est. vol. total, Calls 600 Puts 50. Previous day's open int., Calls 20039 Puts 8306

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Apr 14		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	€
Belgium*	(BFr)	100	18.43	16.26	4.848	1.952	4800	5.463	20.66	497.0	412.5	22.14	3.977	1.657	4.002	2.680	318.2	2.479
Denmark	(DKr)	54.26	10	8.824	2.631	1.059	2605	2.964	11.21	269.7	223.8	12.02	2.158	0.899	2.172	1.454	172.7	1.345
France*	(FFr)	61.50	11.33	10	2.982	1.201	2952	3.360	12.70	305.6	253.7	13.62	2.446	1.019	2.461	1.648	195.7	1.525
Germany*	(DM)	20.63	3.801	3.354	1	0.403	990.0	1.127	4.261	102.5	85.07	4.567	0.820	0.342	0.825	0.553	65.63	0.511
Ireland*	(I£)	51.22	9.439	8.329	2.483	1	2459	2.798	10.58	254.6	211.3	11.34	2.037	0.849	2.050	1.373	163.0	1.270
Italy*	(L)	2.083	0.384	0.339	0.101	0.041	100	0.114	0.430	10.35	8.593	0.461	0.083	0.035	0.083	0.056	6.629	0.052
Netherlands*	(Fl)	18.31	3.373	2.977	0.888	0.357	878.6	1	3.782	90.97	75.50	4.053	0.728	0.303	0.733	0.491	58.25	0.454
Norway	(NKr)	48.41	8.921	7.871	2.347	0.945	2323	2.644	10	240.6	199.7	10.72	1.925	0.802	1.937	1.297	154.0	1.200
Portugal*	(Es)	20.12	3.708	3.272	0.976	0.393	965.8	1.099	4.157	100	82.99	4.455	0.800	0.333	0.805	0.539	64.03	0.499
Spain*	(Pta)	24.24	4.468	3.942	1.175	0.473	1164	1.324	5.009	120.5	100	5.368	0.964	0.402	0.970	0.650	77.15	0.601
Sweden	(SKr)	45.16	8.323	7.344	2.190	0.882	2168	2.467	9.330	224.5	186.3	10	1.796	0.748	1.807	1.210	143.7	1.120
Switzerland	(SFr)	25.14	4.633	4.088	1.219	0.491	1207	1.373	5.194	124.9	103.7	5.567	1	0.417	1.006	0.674	80.00	0.623
UK	(£)	60.36	11.12	9.815	2.927	1.178	2897	3.297	12.47	300.0	249.0	13.37	2.401	1	2.416	1.618	192.1	1.496
Canada	(C$)	24.99	4.605	4.063	1.212	0.488	1199	1.365	5.162	124.2	103.1	5.533	0.994	0.414	1	0.670	79.51	0.619
USA	($)	37.31	6.876	6.068	1.809	0.728	1791	2.038	7.709	185.4	153.9	8.262	1.484	0.618	1.493	1	118.7	0.925
Japan	(Y)	31.43	5.792	5.110	1.524	0.614	1508	1.717	6.492	156.2	129.6	6.959	1.250	0.521	1.258	0.842	100	0.779
Euro	(€)	40.34	7.434	6.560	1.956	0.788	1936	2.204	8.334	200.5	166.4	8.932	1.605	0.668	1.614	1.081	128.4	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100. * EMU member.

■ **D-MARK FUTURES (CME)** DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.5528	0.5548	0.0021	0.5551	0.5527	9,060	29,938
Sep	-	0.5559	-	-	-	2	1,229
Dec	-	0.5592	-	-	-	-	137

■ **JAPANESE YEN FUTURES (CME)** Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.8412	0.8494	+0.0078	0.8500	0.8405	16,533	80,705
Sep	0.8582	0.8590	+0.0071	0.8590	0.8582	25	1,748
Dec	-	0.8622	-	-	-	1	1,454

■ **SWISS FRANC FUTURES (CME)** SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6755	0.6777	+0.0025	0.6786	0.6751	12,313	61,439
Sep	-	0.6845	+0.0025	0.6848	-	51	333
Dec	-	0.6915	+0.0029	0.6915	-	2	6

■ **STERLING FUTURES (CME)** £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.6140	1.6192	+0.0044	1.6204	1.6126	4,857	63,729
Sep	1.6164	1.6200	+0.0058	1.6200	1.6164	53	1,225
Dec	-	1.6190	+0.0050	1.6190	-	1	30

UK INTEREST RATES

LONDON MONEY RATES

Apr 14	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6¼ - 4½	5¾ - 5¼	5⅛ - 5¼	5⅛ - 5¼	5⅛ - 5¼	5⅛ - 5¼
Sterling CDs	-	-	5⅝ - 5⅛	5⅛ - 5⅜	5⅜ - 5¼	5⅛ - 5⅜
Treasury Bills	-	-	5⅛ - 5⅛	5⅛ - 4⅞	-	-
Bank Bills	-	-	5⅛ - 5⅛	5⅛ - 4⅞	-	-
Local authority deps.	5¼ - 5⅛	5¾ - 5¼	5⅜ - 5⅛	5⅜ - 5⅛	5⅛ - 5⅛	5⅛ - 5⅛
Discount Market deps	5¾ - 5⅛	5⅛ - 5⅛	-	-	-	-

UK clearing bank base lending rate 5¼ per cent from Apr 8, 1999

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc. Ave. tender rate of discount on Mar 12, 4.8807pc. ECGD fixed rate Stlg. Export Finance. Make up day Mar 31, 1999. Agreed rate for period Apr 26, 1999 to May 25, 1999, Scheme III 6.65pc. Reference rate for period Feb 27, 1999 to Mar 31, 1999, Schemes IV & V 5.418pc. Finance House Base Rate 5.5pc for Apr 1999.

■ **THREE MONTH STERLING FUTURES (LIFFE)** £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.840	94.850	+0.005	94.880	94.840	14088	185358
Sep	94.860	94.870	-	94.900	94.850	28518	194942
Dec	94.630	94.660	+0.020	94.670	94.620	6932	144552
Mar	94.710	94.730	-	94.750	94.710	11505	135547
Jun	94.610	94.635	-	94.660	94.610	6023	116407

Also traded on APT. All Open interest figs. are for previous day.

■ **SHORT STERLING OPTIONS (LIFFE)** £500,000 points of 100%

Strike Price	CALLS Jun	Sep	Dec	PUTS Jun	Sep	Dec
94750	0.140	0.220	0.230	0.040	0.100	0.320
94875	0.080			0.105		
95000	0.040	0.100	0.135	0.190	0.230	0.475
95125	0.020			0.295		
95250	0.010	0.040	0.075	0.410	0.420	0.665
95375	0.005			0.530		

Est. vol. total, Calls 15980 Puts 14505. Previous day's open int., Calls 443711 Puts 513682

EMS EUROPEAN CURRENCY UNIT RATES

Apr 14	Euro cen. rates	Rate against Euro €	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Greece	353.109	324.40	-0.26	-8.16	8.49	55
Denmark	7.46038	7.4331	-0.0002	-0.36	0.00	2
NON ERM MEMBERS						
UK	0.653644	0.6687	-0.0062	2.06	-2.37	-

Euro central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Euro; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Euro central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Euro central rate. 17/9/92 Sterling suspended from ERM. 16/9/98. Adjustment calculated by the Financial Times.

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

Strike Price	CALLS Apr	May	Jun	PUTS Apr	May	Jun
1.600	1.43	2.19	2.61	0.08	0.78	1.22
1.610	0.65	1.59	2.09	0.25	1.18	1.74
1.620	0.17	1.01	1.66	0.75	1.70	2.16

Previous day's vol., Calls 40 Puts 0. Prev. day's open int., Calls 985 Puts 1,400

■ **PHILADELPHIA SE D-MARK/$ OPTIONS** DM62,500 ($ per DM)

Strike Price	CALLS Apr	May	Jun	PUTS Apr	May	Jun
0.545	0.60	0.98	1.24	0.05	0.30	0.50
0.550	0.26	0.68	0.97	0.15	0.49	0.69
0.555	0.09	0.44	0.71	0.45	0.75	0.94

Previous day's vol., Calls 7 Puts 2. Prev. day's open int., Calls 159 Puts 256

■ **THREE MONTH EURODOLLAR (CME)** $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	95.02	95.01	-0.01	95.03	95.01	33,296	462,840
Sep	94.98	94.98	-	94.99	94.96	105,596	482,004
Dec	94.69	94.68	-0.01	94.70	94.68	50,697	356,659

■ **US TREASURY BILL FUTURES (CME)** $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	95.79	95.80	+0.02	95.81	95.79	12	1,412

BASE LENDING RATES

	%		%		%
Adam & Company	5.25	Exeter Trust Limited	5.25	Smith & Williamson	5.25
Allied Irish Bank (GB)	5.25	●Robert Fleming & Co	5.25	Sun Bank	5.25
●Henry Ansbacher	5.25	Habib Bank AG Zurich	5.25	TSB	5.25
Banco Bilbao Vizcaya	5.25	Heritable & Gen Inv Bk	5.50	United Bank of Kuwait	5.50
Bank of Cyprus	5.25	C. Hoare & Co	5.25	Unity Trust Bank Plc	5.25
Bank of Ireland	5.25	●SG Hambros Bank & Trust	5.25	Whiteaway Laidlaw	5.25
Bank of India	5.25	Hongkong & Shanghai	5.25	Yorkshire Bank	5.25
Bank of Scotland	5.25	Investec Bank (UK) Ltd	5.25		
Barclays Bank	5.25	Julian Hodge Bank	5.25	● Members of London Investment Banking Association	
Brit Bk of Mid East	5.25	●Leopold Joseph & Sons	5.25		
●Brown Shipley & Co Ltd	5.25	Lloyds Bank	5.25		
Citibank NA	5.25	Midland Bank	5.25		
Clydesdale Bank	5.25	NatWestminster	5.25		
The Co-operative Bank	5.50	●Rea Brothers	5.25		
Coutts & Co	5.25	Royal Bk of Scotland	5.25		
Cyprus Popular Bank	5.25	Scottish Widows Bank	5.50		
Duncan Lawrie	5.50	●Singer & Friedlander	5.25		

COMMODITIES & AGRICULTURE

Pretoria in dispute with De Beers

By Victor Mallet in Johannesburg

Penuell Maduna, South Africa's minerals and energy minister, has ordered an urgent investigation into a stoppage of the country's international diamond trade – worth $1bn a year – caused by a dispute between De Beers and the state over the valuation of diamonds for export.

De Beers, apparently fearing an increased corporate tax liability that could go back several years, believes the newly appointed "government diamond valuator" is putting too high a price on diamonds to be exported to De Beers' Central Selling Organisation in London.

De Beers and the CSO stockpile diamonds and operate a cartel to control the world market and keep prices high.

The value of several "parcels" of diamonds from South African mines, worth tens of millions of dollars, is in dispute. Mr Maduna has appointed a team to report to him on the "impasse in the export of diamonds" by the end of next week.

Analysts say De Beers benefited in the past from an easy relationship with Proval, the former government valuator staffed by ex-De Beers employees.

For several weeks the new valuator – a company called Diamond Valuation International Co (DVIC), owned by Belgian, British and black South African interests – has made valuations rejected by De Beers.

"I think it's the first time they have ever been challenged on a valuation," says one Johannesburg-based analyst. "The allegation is clearly that De Beers has been transferring diamonds out of the country at below their real value. But what is their real value?"

Diamond valuing is inevitably disputed, analysts say, because there is no free market in the stones and De Beers has to bear the costs of carrying stock.

De Beers declined to comment yesterday except to acknowledge there had been "teething problems" with DVIC. But its industry allies say there are divisions in the government-appointed Diamond Board over what some see as the politically-motivated choice of DVIC for the four-year contract.

Victor Sibiya, Diamond Board chief executive, confirmed yesterday that the value of diamonds for export was at issue and said he had "full confidence" in DVIC. He declined to comment on whether the valuation of diamonds exported in previous years might be reviewed.

Claude Nobels of DVIC said it was simply doing its job in valuing diamonds. "De Beers says they can't export. We are not saying they can't export," he said.

Sugar drops to new lows on Liffe

MARKETS REPORT

By Paul Solman, Gillian O'Connor and Robert Corzine

World sugar prices fell again yesterday as bumper exports from Brazil, the largest producer, and weak demand from Russia continued to take their toll on markets.

White sugar dropped to a new low on Liffe with the most actively traded August contract at $180.10 a tonne in late trading, against Tuesday's close of $181.70.

In New York, raw sugar remained around its weakest for more than 12 years, the July contract trading at 4.79 cents a pound at mid-day on the Coffee, Sugar and Cocoa Exchange. Tuesday's close of of 4.69 cents was the lowest since 1986.

Cocoa futures were slightly firmer than of late, though analysts said the buying remained subdued on signs that chocolate manufacturers – the main consumers – had adequate supplies. Liffe's May cocoa contract closed up £8 at £779 a tonne.

Crude oil prices slipped after new data showed a rise in stocks of crude oil and refined products in the US over the past week and a continuing build-up of Europe's crude inventories.

The bellwether May Brent futures contract was quoted at $14.95 a barrel in late trading on London's International Petroleum Exchange, down 25 cents from Tuesday's close.

After a buoyant Tuesday, base metal prices eased back *yesterday afternoon and finished lower on the day.*

Metal stocks are still at high levels, and production cutbacks remain rumour rather than fact. Martin *Squires of Rudolf Wolff* warned that the metals' failure to penetrate certain key resistance levels was ominous.

NEWS DIGEST

NICKEL

Inco to lend $200m to its Indonesian offshoot

International Nickel Indonesia, the mining company, yesterday received shareholder approval to borrow $200m from its Canadian parent company to provide working capital and complete expansion. The loan from Inco – Indonesia's parent, which owns 58.7 per cent of its Indonesian venture, will supplement a $340m loan from the Export-Import Bank of Japan and the Canadian Export Development Corporation to help pay for an expansion of production from 100m pounds of nickel per year to 150m pounds.

Inco Indonesia had expected to finance *part of the* expansion from cash-flow but a fall in nickel prices has driven the company into losses. Andre Daenuwy, a company director, said the $580m expansion, which was due for completion in the second half of this year, had also run over budget by some 10 per cent.

Inco Indonesia reported a $2.6m profit for all of 1998 but a $3.7m loss in the fourth quarter and the company decided yesterday not to pay a dividend for 1998.

Sumitomo Metal Mining of Japan owns 20.1 per cent of Inco Indonesia and 20 per cent is publicly owned.

Sander Thoenes, Jakarta

KENYAN TEA

Smallholder output to fall

Kenyan smallholder tea production is likely to drop by more than 10 per cent this financial year to the end of June, to 670m kg of green tea, compared with 750m kg last year, according to the Kenya Tea Development Authority.

That translates to just less than 150m kg of made tea, using a conversion rate of 4.5 to 1, compared with smallholder production of 168m kg for 1997/1998. The shortfall was caused by a lack of rain in late 1998 and early 1999, although recent rainfall is likely to lead to production increases later on.

"Production might pick up between now and June," said Eustace Karanja, the KTDA managing director, who also warned that lower prices could result in lower returns for farmers. Kenya vies with Sri Lanka as the largest tea exporter in the world, and the smallholder sector accounts for 57 per cent of its production.

The news adds to figures recently released by Africa Tea Brokers, an influential trade group in Mombasa, which showed a 37.53 per cent production fall in the first two months of this year, and a 45.71 per cent drop in February. The KTDA said its production started picking up towards the end of March.

Mr Karanja also said that the KTDA, which has traditionally dominated smallholder production, would be fully privatised by the end of the year, and added that infrastructure was on the mend.

"Delivery of tea has greatly improved. Last year, we moved far more tea to factories than the year before. The question of roads has been dealt with and farmers are more happy with things as they are now," said Mr Karanja.

Mark Turner in Nairobi

Codelco puts its faith in copper's cyclicality

The group is banking on improved demand, says **Mark Mulligan**

If Codelco, the world's largest copper producer, survived last year's rock-bottom prices with fewer bruises than its competitors, Marcos Lima, president, *knows who to thank.*

He can start with the company's 18,000 workers, who have agreed to a radical programme of pay freezes, productivity agreements, voluntary redundancy and early retirement.

He can *also* look to the engineers and technicians who have developed the technology to make mining and refining the red metal cheaper. But the man who triggered Codelco's conversion from lazy state monolith to the world's leanest, lowest-cost producer was Juan Pablo Dávila, the in-house futures trader caught up in a similar scandal to the one that brought down Yasuo Hamanaka of Sumitomo in 1996.

That episode, in 1994, cost the company about $250m, forced the untimely resignation of the then president and several other executives and exposed Codelco to the *scrutiny of all Chileans*, who were suddenly calling for its privatisation.

"This was a company that was accustomed to having a very high opinion of itself. Then suddenly it found itself in the middle of a crisis with the whole country watching it," says Mr Lima.

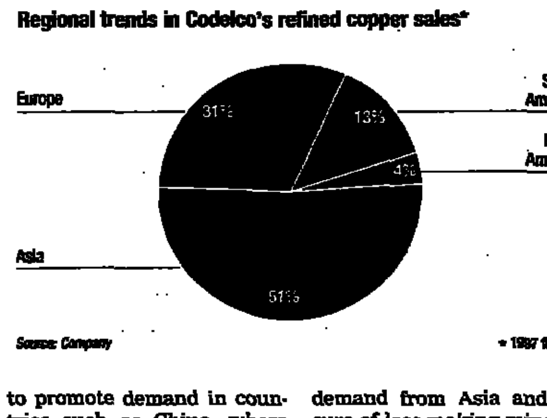
When the scandal broke, copper was trading on the London Metals Exchange at around $1 a pound, and Codelco was producing it at about 65 cents. Last year, when the price averaged a 12-year low of 75 cents, the company had succeeded in reducing direct costs to less than 45 cents a pound.

Last week Codelco reported 1998 pre-tax profits of just $355m, against $1.01bn in 1997, on sales down more than 20 per cent at $3.73bn, although volume deliveries climbed more than 8 per cent to 1.55m tonnes, 15 *per cent of world production.*

Asia, traditionally Codelco's – and Chile's – best customer, slipped into second place behind Europe, buying 23 per cent less in volume *terms that in 1997.* Of all Asian countries, Korea and Singapore were the only two to receive larger shipments from Codelco. However, the weakness in Asia was offset by improved demand from Europe and the Americas.

The dramatic cut in profits sent the Chilean government, which had budgeted to balance its fiscal accounts on an average price of 90 cents a pound, digging into the copper stabilisation fund, a national savings account into which surpluses are salted away during the good years to cover shortfalls in the bad.

Codelco foresees another 7 per cent increase in output in 1999, mainly because of the inauguration last year of Radomiro Tomic, its state-of-the-art mine and refining complex in northern Chile, and is working with foreign partners on a further 10 exploration projects.



Meanwhile, a consortium of Falconbridge, Anglo American and Mitsui has started production at Collahuasi, the giant Andean pit with annual capacity of 330,000 tonnes of copper concentrate.

All this extra capacity, at a time of intensifying pressure on higher-cost US producers to close mines, does not faze Mr Lima, who puts his faith in commodity cycles as well as the potential of markets such as India and *China, where aluminium* wiring is still used.

He says current difficulties are forcing producers to subscribe to Codelco's campaign to promote demand in countries such as China, where per-capita consumption of copper is a tiny fraction of that of countries such as Finland, Sweden, Australia and Canada.

"There's an effort being made to convince the entire copper industry to push up the demand," he says. "Every cent in the price of copper represents $200m of profits at a global level, and the industry is only spending $40m a year on promoting demand. It's ridiculous."

Experts agreed at a copper symposium in Santiago last week that the price of the metal has hit bottom, with *some forecasting a* recovery to 70 cents by the end of the year and to 90 cents by 2001.

The predictions are based on expectations of improved demand from Asia and closure of loss-making mines by BHP, Phelps Dodge, Asarco and Cyprus Amax.

Codelco has considered closing some of its mines, although the emergency now appears to be over and its focus is on expansion rather than contraction.

For the first time in its 30-year history, Codelco is talking to foreign governments and corporations about projects outside Chile.

"Like all big companies, Codelco is interested in all those areas that the rest of the mining world is considering," says Mr Lima. Company representatives had *been in Brazil, Argentina,* Ecuador, Venezuela, Mexico and parts of Africa. "But as yet we don't have anything solid."

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1281.5-82.5	1303.5-04
Previous	1284-5	1305-6
High/low		1318/1300
AM Official	1289-90	1312-12.5
Kerb close		1301-02
Open int.	299,003	
Total daily turnover	72,058	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1165-70	1182-87
Previous	1170-75	1190-95
High/low		1200/1185
AM Official	1171-73	1192-93
Kerb close		1180-85
Open int.	9,063	
Total daily turnover	2,563	

■ LEAD ($ per tonne)

Close	518-9	519-20
Previous	505-6	508-9
High/low		522/514
AM Official	517.5-18	518-18.5
Kerb close		518.5-9
Open int.	37,860	
Total daily turnover	12,265	

■ NICKEL ($ per tonne)

Close	4995-5005	5070-75
Previous	5090-100	5165-70
High/low		5175/5055
AM Official	5030-35	5110-15
Kerb close		5075-85
Open int.	69,147	
Total daily turnover	6,751	

■ TIN ($ per tonne)

Close	5305-15	5290-95
Previous	5335-45	5310-15
High/low		5320/5280
AM Official	5295-300	5285-90
Kerb close		5300-10
Open int.	18,445	
Total daily turnover	4,934	

■ ZINC, special high grade ($ per tonne)

Close	994.5-5.5	1014-15
Previous	994.5-6.5	1014-15
High/low		1020/1008
AM Official	993.5-4.5	1013-13.5
Kerb close		1011-12
Open int.	90,044	
Total daily turnover	8,326	

■ COPPER, grade A ($ per tonne)

Close	1422-23	1449-50
Previous	1424-25	1451-52
High/low		1458/1443
AM Official	1422-22.5	1449-50
Kerb close		1443-44
Open int.	168,949	
Total daily turnover	38,547	

■ LME AM Official $/£ rate: 1.6100
LME Closing $/£ rate: 1.6140
Spot: 1.6130 3 mths: 1.6118 6 mths: 1.6117 9 mths: 1.6116

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	64.70	-0.80	64.80	64.70	439	535
May	65.05	-0.80	65.70	64.60	12,456	29,577
Jun	65.55	-0.50	65.65	65.30	53	2,126
Jul	65.95	-0.50	66.55	65.50	2,795	12,439
Aug	66.30	-0.50	66.20	66.20	7	1,565
Sep	66.70	-0.50	67.10	66.45	71	5,230
Total					16,992	65,487

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	282.80-283.30		
Opening	283.80-284.20		
Morning fix	283.85	175.32	282.46
Afternoon fix	283.40	175.13	262.29
Day's High	284.10-284.40		
Day's Low	282.60-282.90		
Previous close	283.60-284.10		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ......4.24 6 months 4.10
2 months ......4.21 12 months 3.67
3 months 4.16

Silver Fix	p/troy oz.	US cts equiv.
Spot	305.50	494.00

Silver Lending Rates

1 month ......2.65 6 months 1.20
2 months ......2.40 12 months 0.85
3 months 2.05

Gold Coins	$ price	£ equiv.
Krugerrand	281-285	174-176
New Sovereign	65-69	40-43

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	low	Vol	Open int
Apr	281.6	-2.5	284.5	281.0	227	361
May	282.3	-2.5			-	-
Jun	283.2	-2.4	286.1	282.4	31,959	125.5k
Aug	285.2	-2.4	287.8	284.3	116	10,202
Oct	287.2	-2.4	287.4	287.4	45	3,556
Dec	289.0	-2.4	292.1	288.3	389	15,619
Total					33,073	196,091

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Apr	358.3	-2.1	356.5	358.5	36	88
Jul	359.8	-2.1	362.9	357.7	516	9,240
Oct	360.8	-2.1	360.1	360.0	7	1,227
Jan	361.3	-2.1	362.0	362.0	20	140
Total					592	10,896

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Jun	366.90	+0.70	369.50	365.00	69	2,723
Sep	362.90	+1.70	360.00	360.00	-	228
Dec	355.90	+1.70	-	-	-	126
Mar	352.90	+1.70	-	-	-	15
Total					69	3,092

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

Apr	487.2	-4.5	491.5	491.5	20	104
May	486.0	-4.5	495.0	482.0	13,283	38,579
Jul	489.0	-4.5	498.0	485.0	2,256	21,151
Sep	491.1	-4.4	500.0	488.5	391	5,981
Dec	493.3	-4.2	501.5	490.0	117	11,229
Jan	492.7	-4.2	-	-	-	16
Total					16,125	84,598

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
May	16.33	-0.39	16.76	16.17	65,336	102.6k
Jun	16.44	-0.34	16.81	16.25	53,578	132.9k
Jul	16.42	-0.30	16.75	16.25	15,012	74,154
Aug	16.36	-0.24	16.45	16.18	4,416	34,693
Sep	16.22	-0.24	16.33	16.13	1,608	21,097
Oct	16.05	-0.28	16.26	15.98	716	20,916
Total					150,905	618,432

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
May	14.89	-0.31	15.10	14.78	23,356	37,398
Jun	14.76	-0.28	14.97	14.59	34,984	117.6k
Jul	14.69	-0.26	14.85	14.53	4,049	40,380
Aug	14.61	-0.26	14.75	14.51	2,006	15,461
Sep	14.64	-0.26	14.70	14.46	521	14,473
Oct	14.65	-0.19	14.62	14.62	699	6,912
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
May	41.95	-0.65	42.85	41.55	12,181	40,460
Jun	42.40	-0.75	43.25	42.10	5,364	25,073
Jul	42.80	-0.71	42.90	42.50	1,496	17,138
Aug	43.50	-0.56	43.50	43.20	625	16,628
Sep	44.10	-0.56	44.20	43.80	357	9,372
Oct	44.90	-0.56	44.90	44.50	153	6,445
Total					22,467	168,376

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	126.00	-1.75	128.50	126.00	6,334	41,562
Jun	128.25	-1.75	129.50	127.25	3,928	22,169
Jul	129.25	-1.75	130.75	128.50	1,027	10,610
Aug	131.00	-1.75	132.00	130.50	1,309	8,449
Sep	132.75	-1.75	133.50	133.25	154	7,777
Oct	134.50	-1.75	135.00	135.00	24	3,384
Total					13,768	141,668

■ NATURAL GAS IPE (1,000 therms; pence per therm)

May	9.300	+0.030	9.320	9.280	300	2,400
Jun	9.290	+0.050	9.300	9.300	50	1,805
Total					1,495	n/a

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
May	2.115	-0.021	2.154	2.100	37,740	55,875
Jun	2.150	-0.017	2.175	2.135	16,483	29,345
Jul	2.165	-0.015	2.194	2.150	5,578	21,132
Aug	2.175	-0.018	2.205	2.170	2,835	17,457
Sep	2.180	-0.022	2.210	2.175	2,955	18,608
Oct	2.205	-0.023	2.230	2.200	3,117	15,168
Total					78,758	304,587

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
May	50.40	-1.84	52.40	50.05	15,654	41,995
Jun	50.60	-1.77	52.05	50.60	6,970	27,169
Jul	50.85	-1.57	52.30	50.60	1,164	18,620
Aug	50.40	-1.50	51.65	50.35	740	7,628
Sep	49.40	-1.65	50.10	49.40	313	5,094
Oct	48.10	-1.40	48.10	48.10	5	2,876
Total					25,886	116,784

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	75.70	+0.90	75.70	75.25	249	2,417
Jul	77.15	+0.65	77.00	76.80	96	2,416
Sep	75.00	+0.60	75.00	75.00	10	178
Nov	76.70	+0.30	76.90	76.50	72	3,117
Jan	78.70	+0.30	78.75	78.75	10	596
Mar	80.60	+0.20	-	-	-	113
Total					447	8,881

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

May	258.75	+2.75	263.00	256.75	6,265	32,715
Jul	269.25	+2.25	274.00	267.00	20,209	60,507
Sep	280.50	+2.50	284.00	280.00	852	6,866
Dec	294.25	+1.75	298.00	291.75	4,258	17,233
Mar	304.50	+2.25	308.00	304.00	98	3,512
May	312.00	+4.50	314.00	311.50	28	20
Total					31,700	121,232

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

May	217.50	+1.50	220.00	216.00	29,178	91,843
Jul	223.25	+2.00	225.75	221.00	20,635	111,110
Sep	229.75	+2.25	232.00	227.50	1,796	26,594
Dec	238.00	+2.50	240.25	235.50	7,370	89,166
Mar	247.25	+3.25	249.50	246.00	186	14,657
May	251.75	+3.25	253.25	251.00	6	1,203
Total					59,292	340,984

■ BARLEY LIFFE (100 tonnes; £ per tonne)

May	74.75	+0.25	74.50	74.50	11	149
Sep	74.00	+0.25	74.00	74.00	5	40
Nov	76.00	+0.25	-	-	-	397
Jan	78.00	+0.25	-	-	-	20
Mar	80.00	+0.25	-	-	-	-
Total					16	606

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

May	489.25	+4.00	494.75	485.50	22,290	48,794
Jul	498.50	+4.50	504.00	494.25	9,808	50,565
Aug	501.25	+4.50	506.50	499.50	1,059	14,837
Sep	504.00	+4.75	510.00	503.50	546	7,671
Nov	512.25	+4.50	517.50	508.00	4,761	37,333
Jan	522.50	+4.00	526.50	520.00	152	2,249
Total					38,488	164,277

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

May	19.32	+0.41	19.49	18.85	8,146	34,776
Jul	19.63	+0.39	19.80	19.20	6,920	35,900
Aug	19.76	+0.36	19.93	19.62	964	9,044
Sep	19.92	+0.37	20.06	19.78	270	8,796
Oct	20.06	+0.38	20.23	19.95	5	5,863
Dec	20.35	+0.40	20.51	20.20	1,660	21,138
Total					18,320	131,654

■ SOYABEAN MEAL CBT (100 tons; $/ton)

May	134.9	-0.6	137.2	134.5	13,132	38,051
Jul	137.1	-0.1	139.2	137.0	7,085	31,927
Aug	138.2	-0.1	140.2	138.1	928	11,860
Sep	139.3	-0.1	141.3	138.3	1,262	10,130
Oct	140.5	-	142.2	140.5	252	5,368
Dec	143.8	+0.6	145.2	143.3	2,523	18,135
Total					25,814	113,012

■ POTATOES LIFFE (20 tonnes; £ per tonne)

Apr	215.0	-1.0	220.0	215.0	47	126
Jun	225.0	-1.0	-	-	-	1
Nov	75.0	+6.0	-	-	-	-
Mar	100.0	+2.0	-	-	-	-
Apr	114.0	-3.0	114.0	112.0	34	284
Total					81	404

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

Apr	920	+10	920	920	35	1,008
May	935	+10	940	935	20	554
Jun	885	+14	885	885	1	4
Jul	840	-	-	-	-	456
Oct	950	-	-	-	-	188
Total					66	2,387

	Close	Prev
BFI	864	-

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	475.00	+4.00	475.00	474.00	15	542
Sep	493.50	+4.50	493.50	493.50	21	158
Total					36	700

FUTURES DATA
All futures data supplied by CMS.

Nuts and seeds Prices from Kenkko London *$ per m/t. Iranian pistachios* Active market due to low prices and shortage of pistachios suitable for the EU market. Expected to rise by $200/$300 per tonne. US pistachios 21/25 at $3,850 FAS. Short supply. Turkish hazelnuts 13/15 and 11/13, crop 1998 indication $3,900 CFR. Indian cashews Market firm. Price increase of 10% from last month due to short crop and damage. Damage to Brazil cashews. W320 at $6,850 CFR. US almonds crop 1999 estimated at 800m lbs. Prices for 1998 firming. Increase of 5-10% seen next month.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	779	+8	779	760	9,307	41,179
Jul	803	+10	802	785	1,199	18,682
Sep	824	+11	824	805	3,859	30,029
Dec	850	+11	845	832	4,790	27,246
Mar	874	+12	876	853	532	17,591
May	897	+14	896	877	1,484	17,141
Total					22,837	181,068

■ COCOA CSCE (10 tonnes; $/tonnes)

May	1109	+5	1114	1099	7,848	10,698
Jul	1142	+5	1145	1131	6,281	23,577
Sep	1173	+3	1175	1168	731	10,011
Dec	1212	+1	1218	1208	119	8,643
Mar	1253	+1	1258	1250	89	8,411
May	1278	+1	-	-	1	3,956
Total					15,874	83,976

■ COCOA (ICCO) (SDR's/tonne)

Apr 13	Price	Prev. day
Daily	889.22	891.39

■ COFFEE LIFFE (5 tonnes; $/tonne)

May	1483	+6	1495	1472	3,416	26,868
Jul	1475	+4	1485	1466	2,840	20,583
Sep	1490	+4	1498	1482	435	7,959
Nov	1502	+1	1508	1500	132	2,462
Jan	1504	-	1511	1505	30	656
Mar	1505	-	1515	1515	3	146
Total					6,856	98,674

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

May	98.90	+1.35	99.80	98.00	5,389	12,580
Jul	100.30	+1.15	101.25	99.30	7,590	19,080
Sep	102.30	+1.05	103.00	101.30	2,069	7,629
Dec	104.35	+1.10	104.75	103.75	652	4,454
Mar	106.25	+1.15	106.25	105.70	336	1,749
May	107.80	+1.10	107.75	107.50	128	296
Total					16,181	45,813

■ COFFEE (ICO) (US cents/pound)

Apr 13		Prev. day
Comp. daily	84.41	84.38
15 day average	88.43	88.55

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

May	185.1	-4.3	190.1	181.0	5,548	6,125
Aug	180.6	-0.9	182.5	180.1	4,187	22,990
Oct	181.3	+1.2	187.2	179.5	764	11,969
Dec	183.8	+1.4	182.5	182.0	419	5,270
Mar	191.6	+2.1	189.9	189.5	253	3,269
May	194.6	+2.6	-	-	-	1,362
Total					11,171	51,354

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

May	5.10	-0.04	5.19	5.00	18,404	47,802
Jul	4.81	-0.06	4.93	4.75	12,837	60,128
Oct	5.32	-0.06	5.41	5.25	4,553	40,045
Mar	5.95	-0.04	6.01	5.87	2,333	21,747
May	6.03	-0.04	6.07	5.94	107	3,571
Jul	6.15	-	6.15	6.07	183	2,228
Total					38,447	177,385

■ COTTON NYCE (50,000lbs; cents/lbs)

May	60.07	-0.13	60.90	59.95	4,426	18,586
Jul	60.44	-0.14	61.20	60.40	2,216	17,917
Oct	60.85	-0.37	60.70	60.55	167	1,855
Dec	59.56	-0.33	59.75	59.30	818	16,378
Mar	60.85	-0.37	60.70	60.55	167	3,373
May	61.25	-0.15	61.30	61.20	24	1,348
Total					7,659	60,832

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

May	82.75	-3.50	86.90	82.00	1,280	14,320
Jul	83.50	-3.60	87.90	82.50	617	7,234
Sep	84.65	-3.75	89.00	84.00	120	3,029
Nov	85.90	-3.75	90.45	86.00	62	3,015
Jan	87.40	-3.45	90.25	87.00	55	2,432
Mar	88.65	-3.35	88.00	88.00	2	311
Total					2,134	30,383

VOLUME DATA
Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Apr 14	Apr 13	month ago	year ago
1326.2	1326.6	1389.7	1659.6

■ CRB Futures (Base: 1967 = 100)

Apr 13	Apr 12	month ago	year ago
189.09	188.51	-	-

■ GSCI Spot (Base: 1970 = 100)

Apr 13	Apr 12	month ago	year ago
153.81	152.11	142.00	185.42

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-3,575	to	606,175
Aluminium alloy	-80	to	67,020
Copper	+4,300	to	727,200
Lead	-375	to	103,750
Nickel	-12	to	61,620
Zinc	+1,200	to	317,775
Tin	+100	to	9,280

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Apr	66.375	-0.550	67.175	66.300	6,368	16,227
Jun	63.600	-0.725	64.550	63.475	11,906	50,106
Aug	62.400	-0.400	63.100	62.350	1,966	21,312
Oct	64.425	-0.450	65.000	64.200	1,413	12,350
Dec	66.275	-0.475	66.850	66.200	232	5,652
Feb	67.800	-0.350	68.150	67.775	108	2,092
Total					22,029	108,686

■ LEAN HOGS CME (40,000lbs; cents/lbs)

Apr	41.800	-0.350	41.950	41.550	2,169	4,205
Jun	53.925	-1.425	55.750	53.750	4,909	17,689
Jul	56.250	-1.025	57.850	56.100	1,066	6,737
Aug	56.850	-0.900	58.000	56.700	1,185	6,713
Oct	55.375	-0.075	55.750	55.050	588	7,244
Dec	55.400	-0.300	55.850	55.400	211	3,617
Total					10,166	47,257

■ PORK BELLIES CME (40,000lbs; cents/lbs)

May	51.975	-0.550	52.850	51.550	1,278	2,886
Jul	53.350	-0.200	53.600	52.650	422	1,641
Aug	52.200	+0.450	53.250	51.700	44	456
Total					1,745	4,992

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	May	Aug	May	Aug
1250	50	84	8	28
1300	20	56	28	49
1350	6	35	64	77
■ COPPER (Grade A) LME	May	Aug	May	Aug
1450	24	75	39	85
1500	9	53	74	93
1550	3	37	118	125
■ COFFEE LIFFE	May	Jul	May	Jul
1450	292	43	1	10
1500	242	16	1	35
1550	192	7	1	74
■ COCOA LIFFE	May	Jul	May	Jul
775	16	49	14	21
800	6	35	29	32
825	3	24	49	46
■ BRENT CRUDE IPE	May	Jun	May	Jun
1400	81	-	-	32
1450	-	-	5	51
1500	9	55	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)		+or-
Dubai	$14.12-4.28	-0.35
Brent Blend (dated)	$14.67-4.70	-0.325
Brent Blend (May)	$14.85-4.88	-0.295
W.T.I.	$16.28-6.30x	-0.475
■ OIL PRODUCTS NWE prompt delivery CIF (tonne)		
Unleaded Gasoline ‡	$160-163	-1.5
Gas Oil	$125-126	-3.5
Heavy Fuel Oil	$71-73	
Naphtha	$135-137	-3.5
Jet fuel	$156-158	-2.5
Diesel	$138-139	-4
■ NATURAL GAS (Pence/therm)		
Bacton (Apr)	9.28-9.30	+0.015

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER		
Gold (per troy oz)‡	$283.05	-0.80
Silver (per troy oz)‡	494.00	+2.00
Platinum (per troy oz.)	$357.50	-2.00
Palladium (per troy oz.)	$367.05	+1.75
Copper	71.0c	+1.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	19.72r	+0.07
Tin (New York)	250.5	
Cattle (live weight)	91.94p	-0.03*
Sheep (live weight)	100.62p	-3.42*
Pigs (live weight)†	68.14p	+5.79*
Lon. day sugar (raw)	$142.70	-4.00
Lon. day sugar (wte)	$199.00	-5.60
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£95.00	-2.00
Wheat (US Dark North)	£121.00	-1.00
Rubber (May)¥	42.00p	
Rubber (Jun)¥	42.50p	
Rubber (KL RSS No1)	222.00m	-1.00
Coconut Oil (Phil)§	855.0	+50.0
Palm Oil (Malay.)§	485.0y	-2.5
Copra (Phil)§	485.0z	+15.0
Soyabeans (US)	140.0y	
Cotton Outlook'A' index	57.50	
Wooltops (64s Super)	302p	

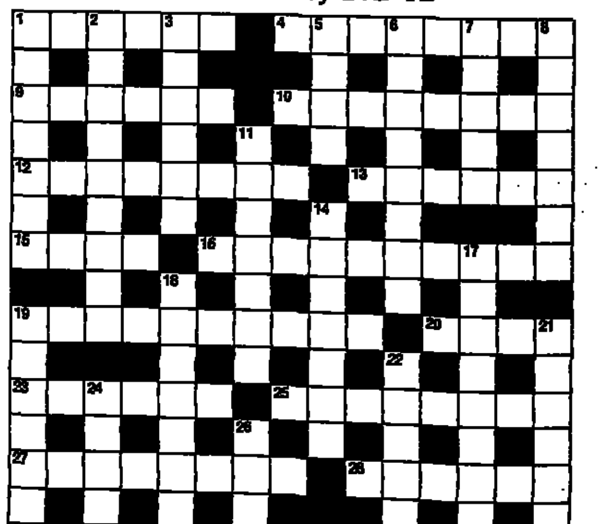
£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. z Mar/Apr. y Mar. x May. ¥London Physical. § CIF Rotterdam. ‡ Bullion market close. * Change on week. †Based on. ‡ Unleaded Gasoline replaced Premium on March 15th. 1,456 head of pigs sold.

JOTTER PAD

For solutions to today's crossword call 0906 843 0060. Calls cost 60p a minute.

CROSSWORD

No.9,962 Set by DANTE



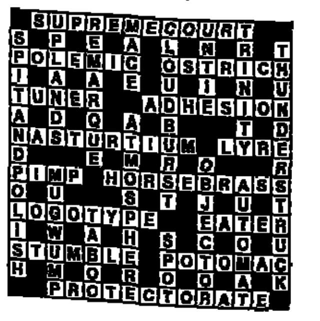
ACROSS

1 Crafty sort of shelter for troops (3-3)
4 Too impudent with series of deliveries completed, we hear (8)
9 An attractive woman – this much one can see (6)
10 Vessels dry-docked having fresh refits (8)
12 Descriptive of a lithe cat, perhaps? (8)
13 To occupy oneself, go into battle (6)
15 As a container it can't be beaten (4)
16 Game boss producing good position for expansion (10)
19 Prosaic pedantries exchanged (10)
20 I knock back about a couple (4)
23 Man on board that is a newcomer to the service (6)
25 Get used to current practice (8)
27 Heroic deed in action is foiled (8)
28 Extension of a letter, say (6)
29 What a pupil may be doing to understand about a classical language (8)
30 Changes his wet flannels (6)

DOWN

1 Being obstinate, had dire trouble (3-4)
2 Deny rough treatment of lap-dog? (9)
3 Ancient city in which it's certain he will take interest (6)
5 Extremely inventive signalman (4)
6 Put more money in or gave some back (8)
7 With time a small work becomes a major one (5)
8 Finish after only half the distance and stretch out (7)
11 Reading is indicated by the sign on the railway (7)
14 Go for the money first (7)
17 Play bill (9)
18 Partisan *assembly* produces a candidate (8)
19 Notice cut out and displayed (7)
21 Children often assume them in play (7)
22 How to overcome the fires of thirst (6)
24 Refuse of autumn left out (5)
26 Low average (4)

Solution 9,961



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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

CAYMAN ISLANDS (REGULATED)(**)

[illegible]

MFS Meridian Funds - Contd.

[illegible]

GUERNSEY (FSA RECOGNISED)

[illegible]

Royal Bk of Canada O/S Fd Mgrs Ltd - Contd.

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (FSA RECOGNISED)

[illegible]

Aberdeen Prolific Intl Fund Plc

[illegible]

Baring International Fund Mgrs - Contd.

[illegible]

ET Global - Contd.

[illegible]

Henderson Crosthwaite Investment Co

[illegible]

Tisco (Ireland) Ltd

IRELAND (REGULATED)(**)

[illegible]

Gartmore Korea Fund Plc

[illegible]

Paribas Multi-Manager Global Fund Plc

[illegible]

ISLE OF MAN (FSA RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

to lend $200m to donesian offshoot

NEWS DIGEST

holder output to fall

CROSSWORD

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Old Mutual Intl Fd Mgrs (Isle of Man) Ltd

[illegible]

JERSEY
(FSA RECOGNISED)

[illegible]

JERSEY
(REGULATED)(**)

[illegible]

Lombard Odier - Contd.

[illegible]

LUXEMBOURG
(FSA RECOGNISED)

[illegible]

Fidelity Funds (u)

[illegible]

Lombard Odier Invest (u)

[illegible]

Schroder International Selection Fd - Contd.

[illegible]

LUXEMBOURG
(REGULATED)(**)

ACM Offshore Funds

[illegible]

BBP - Contd.

[illegible]

HYPO Capital Mgmt Invest Luxembourg SA

[illegible]

Scudder Global Opportunities Funds

[illegible]

OFFSHORE INSURANCES

[illegible]

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Liffe to reduce size of board

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

▶ FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

AEROSPACE & DEFENCE

[illegible]

AUTOMOBILES

[illegible]

BANKS

[illegible]

BEVERAGES

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION & BUILDING MATERIALS

[illegible]

CONSTRUCTION & BUILDING MATERIALS - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQUIPMENT

[illegible]

ENGINEERING & MACHINERY

[illegible]

ENGINEERING & MACHINERY - Continued

[illegible]

FOOD & DRUG RETAILERS

[illegible]

FOOD PRODUCERS & PROCESSORS

[illegible]

FORESTRY & PAPER

[illegible]

GAS DISTRIBUTION

[illegible]

GENERAL RETAILERS

[illegible]

HEALTH

[illegible]

HOUSEHOLD GOODS & TEXTILES

[illegible]

HOUSEHOLD GOODS & TEXTILES - Continued

[illegible]

INFORMATION TECHNOLOGY HARDWARE

[illegible]

INSURANCE

[illegible]

INVESTMENT COMPANIES

[illegible]

INVESTMENT COMPANIES - Continued

[illegible]

INVESTMENT COMPANIES - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

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LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

	Notes	Price	+ or -	52 week high	low	Yield	NAV	Dis or Pm(-)
upiter Split Inc	†	118½	-¼	123½	110½	6.8	-	-
Cap		163	-2	188	59½	-	383.4	57.5
Units	†	691	-	992	680½	2.7	8894.9	9.3
Annuity Prf		84	+½	79½	80½	20.8	-	-
Zero Div Prf		150¼	+1	154	132½	-	-	-
loyds Smlr Uts	♣	148xd	+1	178	105½	3.5	167.1	13.2
Capital		131½	+1	161½	92	-	165.8	20.7
Dividend		14¼xd	-	19¼	13	-	-	-
M&G Equity Capital		25¼	-	45	14½	-	80.0	71.4
Income	†	43½	-	48½	39½	9.0		
Package Units	†	112¼	-	127½	85	3.5	129.4	13.3
Zero Div Pref		45¾	-	48¾	39¾	-	-	-
M & G High Inc Inc	†	98	-	88½	70	4.9	-	-
Capital		9½	+½	25	6½	-	28.2	66.3
Package Units	†	121½	-	130½	99½	3.8	122.0	0.4
Inc & Grth Units	†	94	-	99½	78	4.6	-	-
Zero Div Pref		38	-	41	31¼	-	-	-
M & G Income Inc		18¼xd	+¼	24¼	18	-	-	-
Cap		89	-	78¼	43	-	110.7	37.7
Package Units		166xd	-	182½	149	3.6	188.9	12.1
Geared Units		88xd	-	107	65¾	7.3	111.5	22.9
Zero Div Prf		86½	+¼	87¾	78¾	-	-	-
M & G Recovery Inc		18½xd	-	28	17½	-	-	-
Capital		48¼	-	78½	38½	-	101.5	52.5
Geared Units	†	67xd	-½	85½	46½	10.2	104.2	35.7
Zero Div Prf		121½	+¼	125	111¼	-	-	-
Package Units	†	182½xd	-	208	158	3.9	209.0	12.7
		122½xd	-	122½	112½	8.2	-	-
Cap		127½	-	235	93½	-	359.6	64.6
Zero Div Prf		131¼	-¼	142¼	117½	-	-	-
		55¾	-	65½	50	9.8	-	-
		58	-	55¼	51¼	-	-	-
Jersey Extra Rtn Cap.		27¼	-	30	8	-	44.2	38.3
Inc	H	117¼	-	121	99	6.8	-	-
Zero Div Prf		111½	-	114	98¾	-	-	-
	♣	18	+9	71½	9½	90.0	28.0	42.9
Zero Pref		316	+1	317	271	-	-	-
Package Units		655	-	825	475	4.1	727.6	10.0
		320	+5	410	295	6.0	-	-
Cap	8	1075	-	1280	710	1.4	1375.3	21.8
	♣	110¼	-	132¼	95	7.6	118.8	7.0
Zero Div Pref		114¾	-¼	116	101¼	-	-	-
		161	-	188	150	10.6	-	-

MINING - Continued

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yield	P/E
Dominion A$	♥	16½	-¼	*17¼	9½	-	-	-
Driefontein R	†	242	-½	428½	190	-	6.7	11.9
Durban Deep R		137¼	+¼	225½	100½	-	-	-
East Rand Prp R		9¾	+¼	18¼	9¾	-	-	-
Eng China Clays	♣♦	237	+½	280	141½	184	2.3	11.1
Emax Intl E		8	-	31	7¾	-	-	ϕ
Falcon Inv US$		21	-	69¼	19	-	-	-
Gabriel Res		29	-	40¾	29	-	-	-
Gencor R	†	151½	+2½	*151½	85½	-	5.7	10.7
Glencar Mining E	‡‡	33½	-	42	28½	-	-	-
Gold Fields		362	-3	372	211	-	1.4	44.4
Gold Fields SA R	†	101¾	+1¼	*139¼	51¾	-	-	13.8
Greenwich Res	♣	7	-	41	6¾	28	-	-
Gympie Gold A$		12¾	-	15¾	10	-	-	-
Harmony R	z	365½	+¼	365½	178	-	1.7	-
Impala Plat R	†	212½	+¼	212½	54½	-	3.9	15.7
Indochina Goldfields		40½	+2¼	94	24¼	-	-	-
Ivernia West E	‡‡	28	-	69	23½	-	-	-
JCI Gold		47¾	+2¼	65½	31¼	-	-	-
Julia Mines		1¾	-	3½	1	-	-	-
Kenmare E		5½	-	11¼	5½	-	-	ϕ
Lonrho	♣	456xd	+17½	*480	220	102	3.7	11.5
Meekatharra A$	♥	8	-	7¾	3½	-	-	-
Metdex Africa		48½	-	79¼	27	-	2.5	ϕ
Minmet E	♣	7	-	10¼	6	-	-	ϕ
Minorco R	z	£13¾	+½	£13¾	£5¾	-	1.4	15.8
Moleko A$	♥	1½	-	2½	0¾	-	-	-
Montague A$	♥	1¾	-	6¾	0½	-	-	-
Mount Burgess A$	♥	3¼	+¼	3¾	1¾	-	-	-
Namibian Minerals C$		61¼	+¼	82½	60½	-	-	-
Navan Res E	♣	55½	+¼	69½	30	-	-	-
New Wits R		18	+¼	*21¼	10	-	11.4	3.0
Normandy A$	♥	61¼	-	71½	34½	-	4.8	18.3
North A$	♥	100¼	+½	175	89½	-	5.5	17.9
Northam Plat R	z	45¼xd	+1¼	48¼	22	-	2.2	27.2
Orezone	♣	6¾	-	9½	3½	-	-	ϕ
Ovoca Res E		25½	-	80½	14½	-	-	-
Paramount Vntrs		14¾	+¼	30½	9	-	-	-
Perseverance A$	♣	11½	+2	18	7	-	-	22.8
Petaling MS		17½	-	34½	15½	-	-	-
Portman Mining A$		29½	-	100	27¾	-	-	4.2
Precious Metals A$	♥	15½	-1	*26	13¾	-	-	13.2
RJB	♣	78½	+9½	179	47½	3,030	10.5	1.6

REAL ESTATE - Continued

SPECIALITY & OTHER FINANCE - Continued

TRANSPORT - Continued

WATER

AMERICANS

STEEL & OTHER METALS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

AIM - Continued

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yield	P/E
Vocs Net		137½	-	198½	41½	-	-	-
VAN	♣	34	-	85½	25½	-	-	33.3
Weather Action		27½	-	97½	27½	-	-	-
Weeks Group	♣	3	-	4½	1½	-	3.7	13.0
West 175 Ents	♣	61½	-	87	42	-	-	-
West Bromwich Albion		£100	-	£135	595	-	-	-
Western Select	♣Z	8¼	-	13	7¾	-	3.0	27.4
Westmount Energy	♣	22½	-	300	17½	-	-	ϕ
Wilmington	F	59	-	85	50	-	8.7	2.2
Winchester		105	-	112½	55½	-	-	55.0
World Telecom	♣	55½	-	285	55	-	-	-
XKO		158	-	179	111½	-	-	-
Xpertise	4	28½	-1	42½	24½	-	-	-
Yeoman		61½	-	81½	51½	-	-	ϕ

LEISURE, ENTERTAINMENT & HOTELS

OIL & GAS

REAL ESTATE - Continued

SUPPORT SERVICES

AIM

Alternative Investment Market

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the Official list.

LIFE ASSURANCE

PACKAGING

RESTAURANTS, PUBS & BREWERIES

MEDIA & PHOTOGRAPHY

PERSONAL CARE & HOUSEHOLD PRODUCTS

SOFTWARE & COMPUTER SERVICES

PHARMACEUTICALS

TELECOMMUNICATIONS SERVICES

TOBACCO

REAL ESTATE

TRANSPORT

MINING

SPECIALITY & OTHER FINANCE

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4:30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols relating to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are net and allow for the value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- \# Price at time of suspension
- , Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield, p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other
v Dividend/yield excludes amount payable after 6/4/99
z Dividend yield inc-
prospectus or other official estimate for 1999-2000.
II Dividend is paid in

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1570 a year for each security shown, subject to the Editor's discretion.

♣ FT Free Annual Reports Club

You can obtain the current annual/interim report of any companies annotated with the ♣. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports may also be ordered via the internet at http://www.icbinc.com. All reports will be sent the next working day, subject to availability.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details. Calls are charged at 60p per minute at all times.
An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.
All access to and use of FT Cityline is subject to FT Cityline terms and conditions - your copy will be sent free on request.
Call 0171 873 4378 for more information on FT Cityline.
For Retail Price Index details call 0906 843 6605

The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

LONDON STOCK EXCHANGE

Midcaps benefit from switching out of leaders

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

A modest decline in the *FTSE 100 index gave something of a rather misleading* snapshot of overall sentiment in London's equity market yesterday.

At the close of trading the FTSE 100 was down 19.5 at 6,493.6, having been down 49.5 at its worst.

But while the front-line stocks spent much of the day in negative territory, reflecting pockets of profit-taking, the market's second and third-ranking companies turned in a much more positive performance.

The FTSE 250 settled 45.1 ahead at 5,637.5, after touching a session high of 5,639.4 and the FTSE SmallCap ended at a session high of 2,443.9, up 15.3.

"The leaders came off early on but any selling there was counter-balanced by strong buying in the mid and small-caps; the market still feels as if it wants to go better," noted one market-maker.

He added that there was an increasing view that the medium and smaller stocks offered better value than the leaders, despite the outperformance of the FTSE 250 and SmallCap indices since the start of the year.

While the FTSE 100 has been hitting record intra-day and closing highs in recent weeks, the 250 and SmallCap indices are still way below their all-time peaks.

The 250 index hit a closing high of 5,966.6 on June 9, last year, while the SmallCap index attained its closing high of 2,792.7 on May 26.

Although finishing in the red, the FTSE 100 rallied sufficiently in the early afternoon to hit a new intra-day peak of 6,539.9, only to fall away again.

There were some exceptional individual performances, notably from ICI, which climbed more than 12 per cent at one point as speculators bet on the group announcing the sale of its bulk chemicals businesses in the next few days.

The hunt to unveil the target of Warren Buffett's Berkshire Hathaway fund continued to excite shares in Marks and Spencer and Cadbury Schweppes.

Wall Street supported European markets again with Tuesday's 55-point rise to another record, being followed by another firm opening yesterday.

The bullish underlying tone of the stock market was backed up by the latest Merrill Lynch Gallup survey of UK Fund Managers, carried out between April 1 and 7.

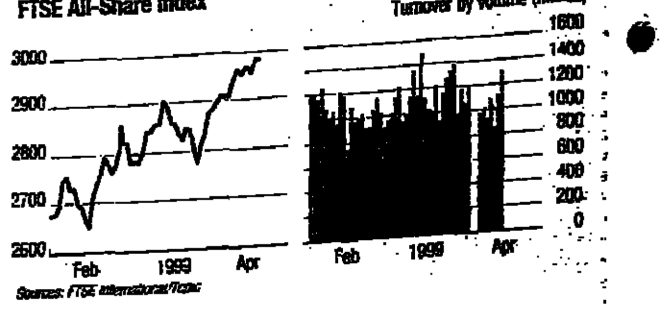
Merrill's survey revealed a U-turn in fund managers' *perceptions of the UK economy* and corporate earnings growth. Up to 83 per cent of local fund managers expect a stronger economy on a year's view as against a record low of 3 per cent last September; the economy is expected to grow 1.1 per cent this year and 2 per cent next year.

Bulls of company profits outnumber bears, with the average forecast for 1999 earnings per share growth rising to 4 per cent from just 0.8 per cent in January. Next year investors expect earnings growth of 7.1 per cent.

Cyclicals are the most popular broad sector, backed by 42 per cent of fund managers, while construction, media and banks gain support at the expense of telecoms and pharmaceuticals.

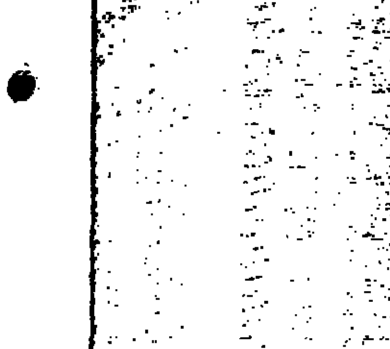
Turnover picked up strongly, eventually reaching 1.2bn shares by 6pm.

FTSE All-Share index



Sources: FTSE International/Reuters

Equity shares traded
Turnover by volume (million)



Indices and ratios

FTSE 100	6493.6	-19.5	FT 30	4007.9	+16.7
FTSE 250	5637.5	+45.1	FTSE Non Fins p/e	27.08	27.07
FTSE 350	3094.4	-4.2	FTSE100 Fut Jun	6555.0	+7.0
FTSE All-Share	2983.33	-2.93	10 yr Gilt yield	4.69	4.59
FTSE All-Share yield	2.26	2.25	Long gilt/equity yld ratio	2.04	2.05

Best performing sectors		Worst performing sectors	
1 Steel & Other Metals	+7.3	1 Diversified Industrials	-2.5
2 Forestry & Paper	+5.9	2 Electricity	-1.6
3 Chemicals	+4.5	3 Insurance	-1.5
4 Basic Industries	+2.8	4 Restaurants, Pubs & Breweries	-1.3
5 Mining	+1.6	5 Electronic & Elect Equip	-1.3

ICI up on hopes of sale

COMPANIES REPORT

By Peter John, Joel Kibazo and Martin Brice

ICI was the best performer in the Footsie as the market responded to reports Huntsman of the US was buying some of the UK group's businesses and an announcement was imminent.

Analysts said Huntsman would be interested in ICI's bulk chemicals businesses, including petrochemicals and its titanium dioxide business, the sale of which *to DuPont and NL Industries* fell apart over US Federal Trade Commission approval in January.

ICI rose 47½ to 635¼p on the expectation that it will finally have put in place its long-discussed disposal and transition to a speciality chemicals business. But analysts said shares could slip after the financial details were revealed.

The stock was also supported by a 4m share order rumoured to be associated with Warren Buffett, the US investor.

The company has been trying to get out of bulk chemicals and reposition as a speciality chemicals company. But low prices, falling sales and regulatory denials have made it difficult to dispose of those assets at premium prices and reduce its £4.2bn debt mountain.

Some analysts estimated the sale of ICI's industrial chemicals assets could net the company less than £1.5bn, making only a dent in ICI's debt.

Strong bid talk returned to Safeway, sending shares in the supermarket group sharply ahead.

Latest speculation suggested an imminent bid for the UK company could come from US stores group Wal-Mart. Resisting the market trend, Safeway shares improved 10 to 261½p.

However, analysts remain sceptical about a takeover approach from the US giant. One said: "Everyone knows Safeway is ready for a bid but I am not sure Wal-Mart is ready for the UK or for Safeway in particular." Safeway called off merger talks with Asda Group in September 1997.

The same specialist added: "In any event, Wal-Mart is big enough to look at other UK opportunities. There is no reason why it cannot consider Tesco or even Sainsbury."

Demand for Asda saw the shares appreciate 7¼ to 159¼p after trade of 19m, while a two-way-pull in Tesco, which reported bumper figures earlier this week, triggered turnover of 50m, making it the most actively dealt stock in the Footsie. The shares closed at 170p.

Sainsbury, the subject of profit-taking which left the shares trailing 3½ to 369½p, was also busy on turnover of 14m.

Profit-taking in Dixons following a recent run left the shares 71 lighter at £14.71, the worst performer in the FTSE 100.

Reports suggesting Marks and Spencer maybe on the *shopping list of US financier* Warren Buffett continued to boost the stock yesterday. The shares, up sharply on Tuesday on the speculation, rose 14¼ to 443¾p. The same rumours boosted Cadbury Schweppes. The shares improved 18½ to 933p.

High street retailer Boots rose 27 to 883½p after Schroder was reported to have advised clients to switch into the stock and out of Kingfisher, which declined 25½ to 865p.

News that Polypipe was in advanced takeover talks at 200p a share prompted the stock to gain more than 23 per cent, or 36½ to 193½p.

The stock fell to 96p amid market turmoil late last year, but has rebounded strongly since. The price of 200p would be some 12 times forecast earnings for next year.

The story of ongoing consolidation in the building materials sector prompted strong performances among similar companies. BPB gained 9½ to 305½p as 1.3m were dealt. Perennial bid candidate Pilkington was ahead 2¼ at 79¼p as 4.1m were traded.

Lloyds TSB falls

Lloyds TSB dipped 17 to £10.43 despite a robust statement to its annual shareholders meeting, with first-quarter profits ahead of the same period a year before and the company on track to achieve promised savings. The previous day the shares had hit an all-time high.

National Westminster dropped in early trading. WestLB Panmure earlier to "hold" from "buy" and argued that a 25 per cent outperformance against the All-Share index in the past quarter had left the shares overvalued. The shares recovered later to close flat at £14.44.

Among smaller property companies, Greycoat gained 19 to 234½p amid brisk trade of 2.8m as it said its net asset value was now 283p, an increase of 29 per cent. The company, which is up for sale, also issued results and a defence document to the all-share offer from Delancey Estates, which it said was worth 194p a share. Delancey was static at 98p.

Scotia Holdings rose 13½ to 139p following removal of a stock overhang and a recent "buy" recommendation in the specialist press. Founder and former chief executive David Horrobin recently disposed of most of his 11 per cent stake in Scotia and, with this overhang removed from the market, the stock responded to new-found buying interest.

St James Place gained 17½ to 297½p on fresh talk of a bid from Prudential. Earlier, the shares were up 34 but firm rejection of the speculation by St James pushed the share price back down.

Prudential, which holds about 27.5 per cent of St James after its acquisition of M&G added a half per cent to its existing holding, closed unchanged at 844½p.

Jefferson Smurfit, the Irish paper and packaging company, rose 11 to 142p, building on earlier gains in response to earnings on Tuesday above market forecasts.

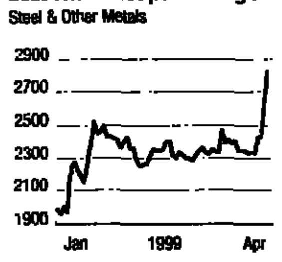
BAA, the airports operator, closed up a penny at 660p amid some 3.3m dealt after it released passenger numbers that exceeded some analysts' expectations. The stock reacted strongly in early trading and advanced some 20p but profit-taking in later dealing saw it retreat. The company said passenger numbers were up 7.6 per cent, compared with expectations of below 7 per cent.

London International Group, the healthcare group, gained 10 per cent or 15½ to 167½p as an unspecified bid rumour did the rounds late in the day.

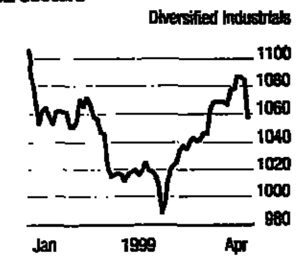
Specialist engineer L Gardner was ahead 16½ at 358p after reporting a 62 per cent rise in interim profits and a bullish trading statement.

Best and worst performing FTSE sectors

Steel & Other Metals



Diversified Industrials



Source: FTSE International

FT 30 INDEX

	Apr 14	Apr 13	Apr 12	Apr 9	Apr 8	Yr ago	*High	*Low
FT 30	4007.9	3991.2	3936.6	3942.2	3893.9	3840.3	4007.9	2790.5
Ord div. yield	2.58	2.58	2.62	2.62	2.64	2.85	4.22	2.56
P/E ratio net	24.41	24.41	24.07	24.05	23.86	24.88	25.41	15.80
P/E ratio nil	24.34	24.35	24.00	23.99	23.80	24.66	25.19	15.71

FT 30 since compilation: high 4004.9 7/15/98, low 49.4 6/26/40. Base Date: 1/7/35

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3991.2	4000.9	3987.4	3995.9	3996.7	4017.0	4012.6	4000.1	4029.7	3982.7

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STOCK MARKET TRADING DATA

	Apr 14	Apr 13	Apr 12	Apr 9	Apr 8	Yr ago
SEAQ bargains	87,638	84,384	81,479	86,355	88,273	66,942
Equity turnover (£m)†	-	4536.2	3485.4	4035.5	4870.8	2856.8
Equity bargains†	-	72,358	68,180	69,691	78,780	57,869
Shares traded (m)†	-	994.6	824.3	924.8	1026.7	711.8
Total market bargains‡	-	88,923	81,397	84,653	96,947	-
Total turnover (£m)‡	-	6623.3	5080.0	5746.8	7102.8	-
Total shs traded (m)‡	*1328.5	1434.0	1132.7	1236.2	1269.7	-
Tradepoint turnover (£m)	30.6	39.3	21.4	24.9	21.2	24.6
Tradepoint shrs traded(m)	11.0	11.8	8.1	12.4	8.4	3.7

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover

■ **London market data**

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	860	Total Highs	124	Total contracts	38,666
Total Falls	584	Total Lows	24	Calls	19,678
Same	1,408			Puts	18,988

Apr 14 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	6535.0	6534.0	-34.0	6592.0	6501.0	23136	200709
Sep	6578.5	6582.5	-34.5	6578.5	6578.5	100	4622
Dec	-	6644.0	-33.0	-	-	0	1180

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	5663.0	5637.0	+45.0	5663.0	5663.0	61	7360

■ FTSE 100 INDEX OPTION (LIFFE) (*6493) £10 per full index point Apr 14

[illegible]

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point Apr 14

[illegible]

Calls 8,004 Puts 9,843 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

[illegible]

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Apr 13	% chg on day	Apr 12	Year ago	Gross div yield %	P/E ratio	52 week High	Low
Gold Mines Index (26)	880.20	+0.64	884.59	1343.88	2.07	868.13	1351.57	701.58
■ Regional Indices								
Africa (6)	1030.07	+1.77	1002.36	1292.56	4.10	1040.90	1488.04	785.63
Australasia (9)	1117.24	+3.40	1080.51	1483.43	2.77	1133.53	1600.53	815.93
Americas (11)	809.17	-0.55	813.61	1218.82	0.90	812.63	1317.41	647.89

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FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	£ Stg Apr 14	Day's chge%	Euro Index	£ Stg Apr 13	£ Stg Apr 12	Year ago	Actual yield%	Cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	6493.6	-0.3	7572.3	6513.1	6441.2	5074.1	2.12	1.85	28.33	54.72	2900.63
[illegible]											

■ FTSE Actuaries Industry Sectors

[illegible]

■ Hourly movements

	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	6511.3	6497.1	6487.6	6483.2	6488.1	6521.9	6511.8	6498.5	6539.9	6463.6
FTSE 250	[illegible]									
FTSE SmallCap	[illegible]									
FTSE All-Share	[illegible]									

[illegible]

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks yesterday.

[illegible]

Based on trading volume for the FTSE 100 constituents [illegible]

هكذا من الاصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €

AUSTRIA (Apr 14) 1 € = 13.76030 Sch

BELGIUM/LUX (Apr 14) 1 € = 40.33990 Frs.

FINLAND (Apr 14) 1 € = 5.94573 Mka

FRANCE (Apr 14) 1 € = 6.55957 Frs.

GERMANY (Apr 14) 1 € = 1.95583 Dm.

NETHERLANDS (Apr 14) 1 € = 2.20371 Fl.

IRELAND (Apr 14) 1 € = 0.78756 Punt

PORTUGAL (Apr 14) 1 € = 200.48200 Esc.

ITALY (Apr 14) 1 € = 1936.27000 Lire

SPAIN (Apr 14) 1 € = 166.38600 Pta.

EUROPE (NON-EMU)

CZECH REP (Apr 14 / Koruna)

DENMARK (Apr 14 / Kr)

GREECE (Apr 14 / Drachma)

NORWAY (Apr 14 / Kroner)

POLAND (Apr 14 / Zloty)

SWEDEN (Apr 14 / Kronor)

SWITZERLAND (Apr 14 / Frs.)

TURKEY (Apr 14 / Tk Lira)

PACIFIC

JAPAN (Apr 14 / Yen)

AUSTRALIA (Apr 14 / Aust$)

HONG KONG (Apr 14 / H.K.$)

INDONESIA (Apr 14 / Rupiah)

MALAYSIA (Apr 14 / MYR)

NEW ZEALAND (Apr 14 / NZ $)

SINGAPORE (Apr 14 / S$)

SOUTH KOREA (Apr 14 / Won)

TAIWAN (Apr 14 / TW $)

THAILAND (Apr 12 / Baht)

AMERICAS

CANADA

TORONTO (Apr 14 / Can $) 4 pm close

MONTREAL (Apr 14 / Can $) 4 pm close

MEXICO (Apr 14 / Peso) 12.30pm

AFRICA

SOUTH AFRICA (Apr 14 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
	TUESDAY APRIL 13 1999								MONDAY APRIL 12 1999					DOLLAR INDEX		
Australia (75)	224.29	1.7	205.67	170.99	239.34	233.89	1.3	3.22	220.53	202.48	167.47	234.11	230.93	224.29	163.86	214.82
Austria (21)	183.39	-0.3	168.16	139.32	172.68	172.68	0.2	2.04	183.91	168.86	139.56	172.27	172.27	253.73	165.27	221.64
Belgium (22)	371.16	-0.6	340.34	281.97	342.17	342.17	-0.1	1.97	373.46	342.90	283.50	342.51	342.51	446.95	319.89	319.96
Brazil (29)	149.75	0.4	137.31	113.76	159.80	459.63	-2.0	4.55	149.14	136.94	113.26	158.33	468.76	269.34	89.32	267.24
Canada (115)	223.53	-0.1	204.97	169.81	238.53	240.93	-0.5	1.63	223.71	205.40	169.88	237.48	242.03	248.78	159.94	243.55
Denmark (34)	439.12	-0.3	402.67	333.60	468.59	411.31	0.2	1.80	440.28	404.25	334.34	467.39	410.37	537.33	408.62	514.96
Finland (26)	716.60	2.5	657.11	544.41	828.64	828.64	3.0	1.41	699.38	642.14	531.10	804.53	804.53	719.62	338.49	389.84
France (74)	333.31	-0.1	305.64	253.22	317.82	317.82	0.4	1.93	333.72	306.41	253.42	316.56	316.56	354.45	253.86	301.71
Germany (55)	264.96	0.2	242.87	201.29	249.67	249.67	0.8	1.59	264.34	242.71	209.74	247.79	247.79	325.61	226.35	283.81
Greece (36)	437.34	2.2	401.03	332.25	468.69	942.79	2.7	1.16	427.95	392.92	324.98	454.30	917.92	454.89	211.47	–
Hong Kong, China (66)	344.97	1.3	316.33	262.07	368.12	343.23	1.4	3.30	340.41	312.55	258.50	361.38	338.65	344.97	196.64	341.54
Indonesia (24)	49.66	3.2	45.54	37.73	52.98	265.50	2.9	1.10	48.12	44.18	36.54	51.08	257.91	64.52	19.04	64.52
Ireland (14)	553.05	1.9	507.13	420.15	588.74	588.74	2.4	1.81	542.68	498.27	412.10	555.19	555.19	605.85	396.15	515.34
Italy (53)	172.15	0.3	157.86	130.79	230.70	230.70	0.8	1.50	171.71	157.66	130.40	228.91	228.91	192.64	128.68	167.92
Japan (443)	115.28	1.1	105.71	87.58	123.02	87.58	1.2	0.84	113.99	104.66	86.56	121.00	86.56	118.39	78.89	100.07
Mexico (29)	1595.72	0.5	1463.24	1212.27	1702.80	16574.42	-0.2	1.54	1588.32	1458.33	1206.15	1686.13	16801.72	1733.73	787.15	1638.22
Netherlands (26)	492.34	0.0	451.47	374.03	458.90	458.90	0.5	2.08	492.30	452.01	373.85	456.49	456.49	582.73	394.92	499.11
New Zealand (18)	64.69	0.2	59.32	49.14	69.03	63.39	0.3	3.78	64.56	59.28	49.03	68.54	63.19	76.08	45.68	74.26
Norway (37)	240.94	-0.6	220.93	183.04	257.10	253.48	-0.3	1.94	242.26	222.43	183.97	257.18	254.14	357.71	181.86	339.39
Philippines (22)	98.17	-0.1	90.02	74.56	104.76	187.82	-0.3	0.79	98.26	90.22	74.62	104.31	188.19	101.69	42.48	101.35
Portugal (18)	228.54	-0.4	209.56	173.62	290.62	290.62	0.1	1.25	229.45	210.67	174.24	290.27	290.27	299.39	194.13	–
Singapore (40)	245.36	-0.4	224.99	186.40	261.82	194.14	0.8	1.39	242.64	222.78	184.26	257.58	192.68	245.36	102.45	227.14
South Africa (34)	217.68	1.1	199.61	165.37	232.29	291.18	2.1	3.31	211.48	194.18	160.60	224.51	285.20	346.20	151.55	323.92
Spain (30)	379.93	2.9	348.39	288.64	443.80	443.80	0.8	1.59	378.94	347.93	287.78	440.35	440.35	435.19	290.81	391.59
Sweden (41)	550.00	0.3	504.33	417.83	586.91	675.14	1.0	2.00	545.83	501.16	414.49	579.44	668.16	628.19	379.18	584.28
Switzerland (30)	398.11	0.6	385.06	302.44	424.82	966.79	0.1	1.16	399.77	367.08	303.58	424.39	366.29	441.65	307.73	399.56
Thailand (28)	25.74	-0.4	23.60	19.55	27.46	37.84	0.0	2.19	25.88	23.59	19.51	27.27	37.84	28.04	8.15	28.04
United Kingdom (201)	410.83	0.2	376.72	312.11	438.40	376.72	1.1	2.25	405.83	372.82	308.18	430.82	372.62	410.83	307.96	397.98
USA (806)	556.38	1.2	510.19	422.68	593.72	556.38	-0.6	1.20	559.68	513.88	425.02	594.15	559.68	559.68	390.12	453.73
Americas (777)	494.91	-0.6	453.82	375.99	528.13	419.63	-0.6	1.23	497.71	456.97	377.95	528.35	422.12	497.71	347.59	411.34
Europe (720)	365.38	0.5	335.05	277.58	389.90	351.11	0.8	1.88	363.48	333.73	276.02	385.86	348.29	386.24	282.83	357.53
Eurobloc (341)	102.74	0.2	94.21	78.05	104.78	104.78	0.7	1.75	102.55	94.15	77.87	104.04	104.04	113.92	81.53	–
Nordic (140)	534.70	1.1	490.30	406.21	570.58	565.94	1.4	1.78	529.08	485.78	401.76	561.66	557.84	555.97	360.04	508.27
Pacific Basin (714)	123.41	1.2	113.16	93.75	131.69	98.41	1.2	1.29	121.95	111.97	92.60	129.45	95.28	123.82	82.88	110.72
Euro-Pacific (1434)	223.73	0.7	205.16	169.97	238.75	192.04	0.9	1.69	222.10	203.93	168.66	235.78	190.28	223.73	166.00	213.60
North America (719)	533.86	-0.6	489.54	405.58	569.69	534.80	-0.6	1.21	536.94	493.00	407.74	570.00	537.75	536.94	374.92	440.34
Europe Ex. UK (519)	331.70	0.1	304.16	251.99	353.95	328.32	0.6	1.67	331.23	304.12	251.53	351.63	326.20	368.32	260.93	326.56
Europe Ex. Eurobloc (379)	102.66	0.9	94.14	77.99	109.55	105.38	0.9	2.00	101.78	93.45	77.29	108.05	104.42	103.93	77.40	–
Europe Ex. UK Ex. Eurobloc (178)	98.36	0.0	90.20	74.73	104.97	100.37	0.5	1.41	98.38	90.33	74.71	104.44	99.90	109.21	75.16	–
Pacific Ex. Japan (271)	209.91	1.4	186.98	154.91	217.60	207.72	1.2	3.05	201.03	184.58	152.66	213.41	205.17	206.42	128.28	206.42
World Ex. Eurobloc (1904)	115.15	0.0	105.59	87.46	122.87	114.65	0.0	1.38	115.18	105.76	87.48	122.27	114.70	115.18	83.09	–
World Ex. US (1639)	223.96	0.7	205.98	170.16	239.01	197.72	0.8	1.72	222.40	204.20	168.89	236.09	196.04	223.98	165.95	217.53
World Ex. UK (2044)	323.43	-0.1	296.58	245.71	345.13	293.89	0.0	1.34	328.87	297.36	245.94	343.81	294.02	323.97	238.11	283.77
World Ex. Japan (1802)	438.58	-0.1	402.17	333.19	468.01	434.64	-0.1	1.51	439.15	403.21	333.48	466.19	434.91	439.15	320.58	389.68
The World Index (2245)	330.98	0.0	303.50	251.45	353.19	301.53	0.1	1.44	330.96	303.87	251.32	351.34	301.31	330.99	242.36	293.40

 [illegible]

Emerging markets:

IFC investable indices

Dollar terms

Apr 13 Market		Day's chg %	% Chg since 31/12/98
Latin America			
Argentina	828.85	+0.4	+3.9
Brazil	308.71	+0.8	+12.2
Chile	580.27	+1.0	+24.1
Colombia[1]	386.29	-0.2	-9.8
Mexico	861.41	+0.5	+37.3
Peru[2]	143.46	+0.5	+6.8
Venezuela[3]	361.53	-1.3	-20.3
East Asia			
China[4]	26.47	-0.5	+1.1
India[7]	71.68	-0.6	+11.7
Indonesia[8]	25.00	+3.4	+3.3
Korea[5]	63.60	-0.1	+20.5
Malaysia	88.94	+2.5	+0.5
Pakistan[9]	99.94	+1.1	+5.7
Philippines	136.14	+0.4	+10.8
Sri Lanka[10]	67.89		-17.8
Taiwan, China[6]	136.41	+1.3	+17.8
Thailand	64.17	+0.2	+1.6
Europe			
Czech Rep	44.21	+0.1	-12.9
Greece	790.28	+2.5	+27.8
Hungary[11]	245.49	-1.1	-12.5
Poland[12]	540.60	-1.2	+3.2
Russia	34.01	+1.2	+45.0
Slovakia	32.53	-3.5	-25.4
Turkey[13]	190.82	-0.1	+30.4
Mideast/Africa			
Egypt	71.33	+0.4	+10.7
Israel	125.59	+2.5	+22.9
Jordan	225.48	-0.2	+4.1
Morocco	148.58	-2.1	-12.6
S Africa[15]	149.37	+3.0	+19.3
Zimbabwe[16]	134.51	+0.2	+27.7
Regions			
Composite	217.13	+0.7	+16.3
Latin America	501.32	+0.6	+19.4
Asia	122.50	+0.6	+14.5
EMEA	130.82	+0.8	+14.3
Europe	167.79	-1.0	+12.0
Eastn Europe	59.59	-0.5	+2.5
ME & Africa	62.81	+2.4	+16.8
Comp + Malay	218.29	+0.8	+15.2
Asia + Malay	120.51	+0.8	+11.5

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 5 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

Latest indices were unavailable for this edition.

4 pm close April 14

NEW YORK STOCK EXCHANGE PRICES

- A -

- B -

1999 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Quote	Chng Prev. Close
8¾	4⅜	BP Prudhoe			3	434	7½	7⅛	7⅛	-⅛
22⅝	14⅛	BSteel	1.73	7.2	12	4710	u24½	23¾	24	+1⅛
181¼	149¾	BT	3.44	2.0	75	230	173¾	170⅛	170⅞	+⅛
18⅛	13	BrwnGo	0.40	2.6	11	392	15⅞	15⅛	15⅛	+⅛
8½	4⅜	BrwnSh				60	5⅛	4⅞	5⅛	+⅛
71	32⅞	BrnFmA	1.18	2.0	20	29	60½	59¾	60	+⅞
77⅛	60⅞	BrnFmB	1.16	1.8	22	1092	64⅞	63¾	64⅛	+⅞
40⅞	29⅛	BrFerr	0.76	1.9	20	7327	u40⅝	40⅛	40⅛	+⅛
7⅞	5⅝	BRT			5	34	u7⅞	7⅞	7⅞	+⅛
36	18⅞	Brnswk	0.50	2.6	10	3939	19	d18⅛	18⅞	+½
18⅞	12⅝	Brush Well	0.48	3.4		553	14⅞	13⅝	13⅞	+⅛
29⅛	25¾	Buckeye Pt	2.10	8.1	13	122	26⅛	25⅞	25⅞	-⅛
15⅛	12¼	BuckeyeTch			9	1032	13⅝	13⅛	13⅛	-⅛
18⅞	11¼	BrwADR				447	13⅞	13⅛	13⅞	-⅛

- C -

- D -

- E -

1999 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Quote	Chng Prev. Close
2⅞	2⅛	ECC Intl				5	2⅞	2⅞	2⅞	-⅛
30⅞	25½	EGGG	0.58	2.1	12	654	27⅛	26⅞	27⅛	+⅛
33⅞	20⅛	Eastgrp	0.16	0.7	19	3425	22½	21⅛	22⅞	+1
31⅝	26⅝	East Utils	1.66	5.7	17	278	29⅛	28⅞	29	
44	35⅞	E Enterpr	1.68	4.8	15	613	36½	d35⅛	35⅛	-1⅛
46⅞	40⅞	EastCh	1.76	3.8	14	5400	46⅛	41⅞	46⅛	+4½
80⅞	60⅞	EKodak	1.76	2.8	14	8981	65⅛	64	64	+⅛
81⅛	62	Eaton	1.76	2.2	16	6055	u81⅞	78⅛	80⅞	+2⅞
41⅛	34⅝	Ecolab x	0.42	1.1	33	2972	38⅞	37⅛	39⅛	+1⅞
28⅞	21⅛	Edwrds x	1.08	4.7	12	3589	23⅛	22⅞	22⅞	-⅛
41	30⅞	EdwdAG	0.60	1.6	12	7240	38⅞	37	37	-⅛
4⅛	2⅞	Elsin Group				102	3⅞	3⅛	3⅞	+⅛

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

1999 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Quote	Chng Prev. Close
15⅞	8⅛	Zapata				4316	37⅛	35	37⅛	+1⅛
28	20⅞	Zenith Nar			3	3469	10⅞	9⅞	9⅞	-⅛
6⅞	5⅛	Zenix Inc	1.00	4.2	21	53	23⅞	23⅞	23⅞	+⅛
11⅞	10⅛	ZweigFd x	0.67	11.4		119	5⅞	5⅞	5⅞	+⅛
8⅞	8⅛	Zweig Tot x	1.20	11.6		814	10⅞	10⅛	10⅞	+⅛
			0.84	10.1		460	8⅞	8⅛	8⅞	

Price data supplied by Financial Times Information

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.
d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
‡ Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Apr 13	Apr 12	Apr 9	1999 High	1999 Low	Since compilation High	Since compilation Low
Industrials	10395.01	10339.51	10173.84	10395.01 (13/4)	9120.67 (22/1)	10395.01 (13/4/99)	41.22 (8/7/32)
Home Bonds	104.10	104.51	104.51	108.88 (13/1)	103.95 (1/4)	107.17 (9/12/98)	54.99 (1/10/81)
Transport	3295.92	3335.89	3370.40	3433.07 (18/3)	3063.80 (22/1)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	298.01	298.75	296.33	311.91 (4/1)	286.44 (12/2)	320.51 (8/10/98)	18.53 (8/7/32)

DJ Ind. Day's high 10512.11(10384.48) Low 10239.33 (10042.82) (Theoretical‡)
Day's high 10418.87(10340.62) Low 10316.47 (10086.69) (Actual‡)

Standard and Poors	Apr 13	Apr 12	Apr 9	1999 High	1999 Low	Since compilation High	Since compilation Low
Composite‡	1349.82	1358.64	1348.35	1358.64 (12/4)	1212.19 (14/1)	1358.64 (12/4/99)	4.40 (1/6/32)
Industrials♥	1619.71	1632.01	1622.34	1632.01 (12/4)	1461.72 (14/1)	1632.01 (12/4/99)	3.52 (30/6/32)
Financial♥	149.69	149.90	147.53	149.90 (12/4)	123.72 (8/2)	149.90 (12/4/99)	7.13 (4/9/74)
Others							
NYSE Comp.	631.67	633.13	626.59	633.13 (12/4)	578.62 (8/2)	633.13 (12/4/99)	4.64 (25/4/42)
Amex Comp	737.80	735.32	727.50	737.80 (13/4)	683.61 (4/1)	763.67 (22/4/98)	524.20 (16/7/98)
NASDAQ Cmp	2583.50	2596.82	2593.05	2596.82 (12/4)	2208.05 (4/1)	2596.82 (12/4/99)	54.87 (3/10/74)
Russell 2000	417.24	412.32	405.85	433.13 (11/1)	383.37 (23/3)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	Apr 9	Apr 2	Mar 26	Year ago
Dow Jones Ind. Div. Yield	1.56	1.61	1.61	1.56
	Apr 7	Mar 31	Mar 24	Year ago
S & P Ind. Div. yield	1.07	1.11	1.13	1.33
S & P Ind. P/E ratio	41.63	40.39	39.72	30.27

US DATA

MARKET ACTIVITY

Volume (million)	Apr 13	Apr 12	Apr 9
NYSE	810.900	810.840	716.130
Amex	37.139	34.482	28.959
NASDAQ	1,353.4	1,184.0	1,098.9

NYSE	Apr 13	Apr 12	Apr 9
Issues Traded	3,565	3,582	3,548
Rises	1,547	1,699	1,698
Falls	1,474	1,311	1,274
Unchanged	544	582	576
New Highs	116	121	98
New Lows	71	74	84

NYSE TRADING ACTIVITY

Volume : 810,900,000

ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Compaq	46,514,300	23⅝	–⅛
LucentTch	14,669,500	56⅜	–2⅛
Citigrp	10,855,100	75⅝	+1⅛
AmOnLne	10,536,700	159⅛	+7⅛
Schwab	7,942,800	150½	+16⅝
KeFld	8,711,800	53	+2
PhMorr	6,534,700	35¼	–⅜
Disney	6,389,300	34⅜	–⅞
GenElec	6,313,500	117⅝	+¼
Tycoln	5,646,800	77⅛	+⅝

BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Safeg'd Sc	115¼	+19¼	+20.1
Jotera	45⅛	+6⅜	+17.3
Schwab	150½	+16⅝	+12.6
DSPCom	23⅛	+2⅝	+11.4
Downs			
Zapata	10⅛	–1⅝	–14.5
OrionCap	30¾	–2¼	–6.8
CadnceDsgn	23⅛	–1⅜	–6.2
GraceW	12⅛	–⅞	–6.6

NASDAQ TRADING ACTIVITY

Volume :1,353,432,000

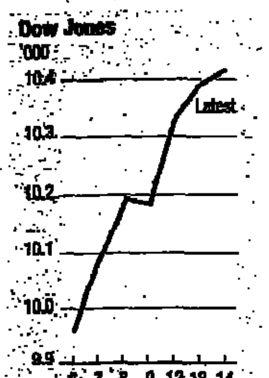
ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Intel	34,256,300	60⅝	–⅛
DellCmp	28,712,700	40⅛	–1⅛
SunSep	24,947,400	17½	+1⅝
Micsft	23,244,900	90⅝	–2⅝
Oracle	20,840,500	25⅝	–1⅛
PrgTch	17,082,300	12½	+2⅛
Infrmx	15,745,800	8⅝	+1⅛
E trade	13,557,100	125½	+29⅛
CiscoSys	11,701,800	114⅛	–3⅞
PresTec	10,686,700	17⅛	+1⅝

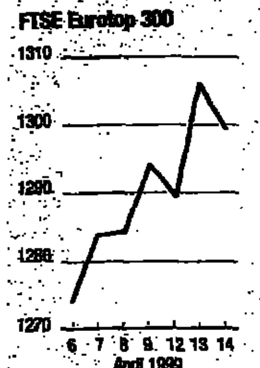
BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
SanchezCmp	78⅛	+46	+150.6
CableTlk	39⅜	+14⅛	+54.3
CBT ADR	12⅝	+3⅜	+42.7
WhlRirt	24⅞	+5⅝	+30.9
Downs			
ES Grp	49⅝	–9	–15.3
Voeccinsh	29⅝	–4⅜	–14.2
ApogeeEnt	10⅜	–1⅛	–12.2
Dialge	30⅝	–4⅛	–11.8

Dow Jones



FTSE Eurotop 300



JAPAN

	Apr 14	Apr 13	Apr 12	1999 High	1999 Low	Since compilation High	Since compilation Low
Nikkei 225	16794.69	16715.16	16507.40	16895.83	13232.74	38915.8	85.25

Day's high: 16799.17. Day's low: 16436.19.

TOKYO TRADING ACTIVITY

Volume : 719,330,000

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
NKK	13,005,000	93	–1
Toshiba	11,541,000	814	–19
NpStl	10,694,000	252	–4
BTokM	9,397,000	1825	+38
Itochu	9,361,000	339	
FujiBk	9,222,000	806	+8
Haseko	8,600,000	97	+5
NEC	8,495,000	1300	–72
Nakolw	7,960,000	127	–11
Hitachi	7,792,000	880	–25

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Tosoh	299	+38	+14.6
NpRoad	298	+28	+10.4
Esai	2420	+200	+9.0
KDD	6350	+500	+8.5
Downs			
Nakolw	127	–11	–8.0
NEC	1300	–72	–5.2
AllNAir	378	–19	–4.8
Np Pwr	223	–11	–4.7

GERMANY

	Apr 14	Apr 13	Apr 12	1999 High	1999 Low	Since compilation High	Since compilation Low
DAX	5182.15	5199.18	5159.16	5443.62	4678.72	6171.43	931.18

Day's high: 5221.83. Day's low: 5149.26.

FRANKFURT TRADING ACTIVITY

Volume : (m)

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
DmlrCh	484,873	90.2	–1.05
Dt Bk	413,022	48.09	–0.54
ThyKrp	353,513	19.95	+0.05
Bayer	317,141	38.27	+0.12
Cmrzbk	271,524	29.75	+0.2
BASF	261,907	39.18	+0.23
Lufthn	235,004	21.1	–0.3
Siemns	235,056	64.3	–0.4
Dt Tel	215,558	41.6	+0.1
Contntl	161,876	23.5	

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
DtBWrt	85	+7	+9.0
BayHyV	60.5	+3.1	+5.4
DegHis	38.2	+1.8	+4.9
AaMeRg	103	+4	+4.0
Downs			
Merck	32.2	–2.2	–6.4
Mannsm	126	–6.9	–5.2
ErgoVr	118.5	–4	–3.3
Hrlltz	21.5	–0.7	–3.2

FRANCE

	Apr 14	Apr 13	Apr 12	1999 High	1999 Low	Since compilation High	Since compilation Low
CAC 40	4349.26	4367.41	4355.00	4367.41	3958.72	4388.48	984.51

Day's high: 4382.86. Day's low: 4309.38.

PARIS TRADING ACTIVITY

Volume : 817,707,840

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Usinor	1,928,408	14.41	–0.15
FrTele	1,815,852	78.9	–0.4
BNP	1,149,540	74.8	–1.8
RhonPA	1,124,358	43.3	–0.14
Schndr	1,047,370	54.7	+1.9
Vivndi	1,040,282	223	–7.5
Renault	999,631	35.5	–0.7
TotalB	982,919	115.9	–0.2
Danone	840,535	248.7	+14
ElfAqr	836,920	128	+1.9

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Danone	248.7	+14	+6.0
Lapinl	215	+11.9	+5.9
GalLaf	1184	+55	+4.9
CPR	44.15	+1.95	+4.6
Downs			
Vivndi	223	–7.5	–3.3
Paribas	95.5	–3.1	–3.1
SocGen	162.7	–4.7	–2.8
DassSy	36	–0.99	–2.7

UK

	Apr 14	Apr 13	Apr 12	1999 High	1999 Low	Since compilation High	Since compilation Low
FTSE 100	6493.6	6513.1	6441.2	6513.10	5770.20	6513.1	986.9

Day's high: 6539.9. Day's low: 6463.8.

LONDON TRADING ACTIVITY

Volume : 1,328,500,000

ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Tesco	50,941,880	170	+⅞
Signet	40,747,169	55	+3½
Shell T&T	35,530,710	413	+5½
Brit Steel	32,973,020	149¾	+10¼
BTR Siebe	26,001,870	285	–5¾
ASDA	19,574,830	159¾	+7¾
Centrica	18,793,978	110¾	–1¾
ICI	18,371,850	635½	+47½
BG	17,228,490	348¾	+3¾
BP Amoco	15,882,020	1032½	–18½

BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Nrthrn Petrlm	2½	+1	+66.7
Middlesex	1⅛	+⅜	+58.4
Pilot Techs	62½	+15	+31.6
Arena Leisure	17	+4	+30.8
Downs			
Utd Carriers	26	–3½	–11.9
Chieftain	51½	–6	–10.4
Philippine Gld	9½	–1	–9.5
European Mn	57½	–6	–9.4

INDEX FUTURES

S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	1361.00	1337.00	–25.30	1367.90	1334.50	95,408	368,732
Sep	1376.50	1351.00	–24.50	1379.50	1348.00	280	5,155
Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	16680.0	16740.0	–	16780.0	16430.0	33,803	212,193
Sep	16720.0	16700.0	–60.0	16720.0	16460.0	67	5,555

Open interest figures for previous day.

CAC-40 (200 x Index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Apr	4334.0	4340.0	–13.5	4367.5	4312.0	70,071	114,585
May	4316.0	4326.5	–14.5	4335.0	4316.0	1,272	761
DAX							
Jun	5220.0	5195.0	–34.5	5248.5	5181.0	49,078	314,739
Sep	5245.0	5229.0	+5.0	5268.5	5199.5	341	1,511

OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Apr	759.25	769.50	+4.50	778.00	759.25	30,736	104,685
May	757.50	768.00	+5.25	775.25	757.00	8,614	12,328
EUREX							
Jun	7315.0	7309.0	–6.0	7379.0	7290.0	21,481	107,496
Sep	7360.0	7322.0	–18.0	7360.0	7312.0	82	3,857

WORLD MARKETS AT A GLANCE

Country	Index	Apr 14	Apr 13	Apr 12	1999 High	1999 Low	Yield	P/E
Portugal	BVL 30	4652.88	4692.05	4687.32	5258.85 6/1	4370.85 18/3	2.15	26.6
	PSI 20	10695.52	10789.09	10778.78	12120.85 6/1	10093.08 18/3		

THE NASDAQ-AMEX MARKET GROUP

4 pm close April 14

AMEX

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STOCK MARKETS

Wall Street rise leads to uncertain session

WORLD OVERVIEW

Wall Street's somewhat unconvincing rise to a fifth record high in seven sessions on Tuesday set the scene for an uncertain day in world equity markets, writes Michael Morgan.

The Dow's early performance yesterday was also inconclusive, with its rush through the 10,500 level not coming until an hour after the European markets had closed.

Kuala Lumpur was Asia's biggest loser as protestors clashed with riot police outside the court where sacked finance minister Anwar Ibrahim was sentenced to six years in prison on corruption charges.

Europe was mostly lower as many investors judged the time ripe to book profits. Corporate news did, however, spark life into some of the main markets.

In Frankfurt, Mannesmann tumbled almost 6 per cent as worse-than-expected first-quarter results brought profit-takers out in force. But in Paris, Danone was the blue-chip leader as better-than-expected first-quarter sales gave investors something other than Kosovo to think about.

The smaller markets were more lively. Istanbul shot up 9.9 per cent as worries about the outcome of Sunday's election, and the market's 19 per cent slide over the previous four sessions, seemed overdone.

Moscow climbed 6.4 per cent, encouraged by higher oil prices and news of a Kremlin peace envoy being sent to Yugoslavia.

Research indicates flows into European equity funds remained soft at the start of the year. Salomon Smith Barney estimates $4.8bn flowed into the funds in February, up from January's $4.2bn but down on 1998's monthly average of $6.7bn.

Nonetheless, equities continue to look attractive against other asset classes and last week's European Central Bank rate cut can only reinforce this, says Jonathan Stubbs, European strategist. "Further equity market stability will increase retail confidence in equities and, combined with the low returns available on other asset classes, should see a healthy pick-up in flows."

Cyclical stocks provide power for Dow rise

AMERICAS

US investors shrugged off a cautious start and sent stocks sharply higher in early afternoon trading, with gains in cyclical and financial stocks sending the Dow Jones Industrial Average above 10,500, *writes John Labate in New York.*

The breadth of buying increased, with advancing stocks leading decliners on the NYSE by a margin of nearly 2 to 1. The Dow gained 105.17 at 10,500.18. The broader market, including the technology sector, trailed well behind blue chips at midday. The Standard & Poor's 500 index gained 1.94 to 1,351.76 and the Nasdaq composite was 9.47 stronger at 2,392.97.

The earnings results season took centre stage yesterday. In the Dow, shares of banker J.P. Morgan were $9 11/16 or more than 7 per cent stronger to $139½ after the company exceeded earnings expectations.

The real power behind the midday Dow was cyclical stocks including International Paper, up $4¼ or more than 8 per cent at $52⅞. Alcoa, up $3⅞ or 8.3 per cent to $50 9/16, and Caterpillar, up $2 9/16 to $57 9/16.

Boeing was also a clear favourite, gaining $2¼ to $37¼ one day after the company made comments about cutting production costs. Among declining Dow shares, Merck continued to sell off, down $2⅞ at $80 1/16.

In the telecommunications sector, Lucent Technologies gained 4 9/16 to $61⅛ after the company said it would meet or exceed earnings expectations. Tellabs rose $2⅛ at $115 ahead of its earnings release due out later in the day.

Computer-related shares were less impressive, though generally higher on the day. Apple Computer gained nearly 6 per cent or $2 1/16 to $36 13/16 in anticipation of its quarterly report. But Dell Computer was off $1 1/16 at $39.

Online brokerage stocks were mostly lower as investors took profits after a strong session on Tuesday. Charles Schwab was down $4 11/16 to $146 1/16 while shares of Ameritrade were off 9 per cent or $15 13/16 to $157 9/16 ahead of its earnings report.

The small-company sector also managed a strong rise after many months of listless trading. The Russell 2000 index gained 5.88 or 1.4 per cent at 423.12.

TORONTO pushed steadily higher in early trading in active business as the buyers sought blue chips.

Banks, which account for more than a fifth of the benchmark weighting, were a strong market and the 300 composite index was up 66.40 at 6,979.70 at noon.

In banks, Bank of Montreal gained C$1.15 at C$67.25 while sector leader Royal Bank of Canada rose C$1.65 to C$77.30.

Bombardier among industrials continued to warm to recent solid results, adding 50 cents at C$20.50. Northern Telecom rose 25 cents to C$107.50.

Resource gainers included nickel miner Inco, which improved C$1.25 to C$22 and gold miner Barrick, where the shares improved 10 cents to C$25.95.

Marathon Oil was one of the morning's heaviest casualties, sliding C$1.50 to C$41 as international oil prices softened.

Europe slips on Kosovo fears

EUROPE

European markets closed mostly lower in spite of another record close on Wall Street overnight. Fears of an escalation in the Kosovo conflict also kept the lid on sentiment.

Forestry and paper stocks outperformed, however, rising 3.6 per cent following upbeat results from US and Irish industry leaders on Tuesday.

Food producers also delivered strong gains, up 2 per cent, led by Danone, Unilever, and Nestlé. Chemicals rose 1.3 per cent on gains in the Netherlands and a broker upgrade for the sector in Germany.

The FTSE Eurobloc 100 index, which covers the leading companies in the euro-zone, closed 4.64 or 0.4 per cent lower at 1,062.23. The FTSE Eurotop 100 index, covering countries both inside and outside monetary union, retreated 16.06 or 0.5 per cent to 3,019.32, while the broader FTSE Eurotop 300 index was 6.19 or 0.5 per cent off to 1,299.96.

For full FTSE European indices see Euro Markets page.

FRANKFURT brought a four-day upward run of almost 200 to an end, giving up 38.46 at 5,186.76 on the Xetra Dax index.

DaimlerChrysler ran into profit-taking after Tuesday's €3.19 advance, slipping €1.70 to €90.25 in spite of an upgrade to "medium-term buy" at Merrill Lynch. The shares fell to a low of €89.65 with broad sentiment hit by European Union allegations of anti-competitive sales practices.

Chemicals shares were met with demand in the wake of a positive note from Bank Julius Baer which moved from "underweight" to "overweight" on the sector. Degussa-Huels surged €1.80 to €38.20 while Bayer improved 13 cents to €38.40.

First-quarter results short of analysts expectations sent telecoms leader Mannesmann down €7.88 at €37.80.

Among cyclicals Linde rose €16 to €571.05. Top retailer Karstadt gained €11 to €384.

PARIS tracked the rest of Europe southward, ending 18.15 or 0.4 per cent lower to 4,349.26 on the CAC-40.

Danone bucked the trend, adding €14 or 6 per cent to €248.70 on positive first-quarter sales.

Vivendi continued to weaken following an announcement on Tuesday that it would raise €5.7bn of new capital. The share shed €7.50 to €223, a 6.8 per cent loss in three days.

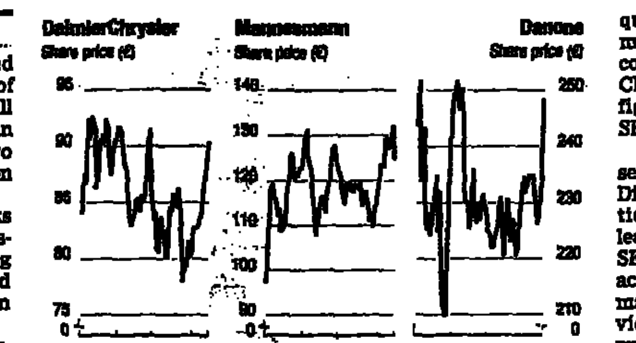
Bank stocks struggled with BNP off €1.80 to €74.80 while Société Générale shed €4.70 to €162.70 and Paribas fell €3.10 to €95.50. The French bourse watchdog cleared the SocGen and Paribas responses to BNP's hostile bid on the two companies, paving the way for the market regulator to open the offers.

Bucking the trend was CCF, perceived as a takeover target, which rose €1.75 to €91. Belgian-French bank Dexia was also stronger, closing €5.30 higher to €130.80 after making a LFr40.1bn offer for the shares in Banque Internationale de Luxembourg which it does not own.

AMSTERDAM managed to stay positive, thanks to good gains for leading cyclicals. The AEX index ended up 2.61 at 543.60.

In chemicals, DSM gained €4.10 to €81 and Akzo Nobel rose €2.10 or 5.7 per cent to €38.95. Steel leader Hoogovens stayed in demand, adding a further €1.40 to €37.40 for a three-day gains of 12 per cent.

Unilever rose €1.90 to €66.80 with investor interest enlivened by the strong first-quarter sales at French foods leader Danone.



Tank storage group Pakhoed came off steeply following a profits warning and a subsequent raft of broker downgrades. The shares ended off 90 cents or 4.3 per cent at €20.10.

Arnhemsche, the holding company with a near 11 per cent stake in Akzo Nobel, surged €3.50 or 31 per cent to €14.90 following an agreed takeover bid from ING.

ZURICH saw further strong demand for Nestlé after Tuesday's news that the company planned to sell part of its European frozen-foods business to focus on high-margin items. The shares climbed SFr36 to SFr2,782 for a two-day rise of 4.5 per cent.

The broad market was flat, with the SMI index closing 12.0 higher at 7,378.2.

The speciality chemicals sector was also bought. Ciba rose SFr5 to SFr125 on rumours that the company, which is due to publish first-quarter sales data today, might also announce a co-operation deal or merger. Clariant, due to unveil sales figures tomorrow, gained SFr16 to SFr748.

Heavy demand was also seen in the high-tech sector. Distefora, a small information technology company leapt SFr84 or 73 per cent to SFr199 as it announced the acquisition of a leading German internet service provider and forecast sharp profit growth. Earlier in the year, the share traded at less than SFr17.

MADRID closed slightly weaker, down 3.29 to 894.05 on the general index, as investors focused on Endesa. Shares in the electricity company were 66 cents off to €22.10 following its $1.5bn bid for Endesa Chile, the *country's leading power generator, late on Tuesday. Some traders suggested Endesa was paying too high a price for its Chilean namesake.*

HELSINKI was pulled down by a 2.4 per cent drop in market leader Nokia, off 90 cents to €78. The Hex index conceded 28.39 to 6,974.85.

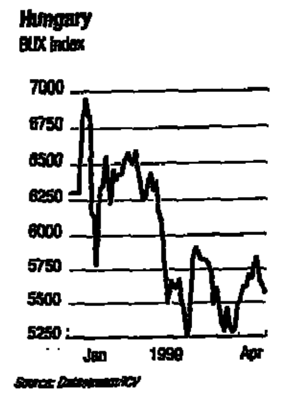
The forestry sector, however, turned in another robust performance, boosted by rising paper prices and upbeat results from International Paper in the US and Jefferson Smurfit in Ireland on Tuesday.

Written and edited by Jeffrey Brown, Bertrand Benoit, Paul Gregan and Mark Herlihy

EMERGING MARKET FOCUS

Hungary thirsts after liquidity

As investors count the days to Hungary's first technology listing – Synergon – the long-desired recovery for prices on the Budapest stock market remains as elusive as ever.



The benchmark Bux index, *hit lately by negative economic data, closed yesterday at 5,842.22, up 20.34 on the day* but still almost 40 per cent short of the 9,017 all-time high of last April.

Performance so far this year has been miserable. The index is down 17.5 per cent in dollar terms, earning Budapest the title of poorest performing European market. Poland, for example, is off 1.7 per cent this year.

The casual observer might be tempted to blame the Kosovo crisis. Analysts, however, while admitting it has some bearing on short-term sentiment, mostly shrug off the problems caused by hostilities – at least to date.

"Only about 0.5 per cent of Hungary's trade is with Yugoslavia," said Csaba Varga, chief analyst with Citibank in Budapest.

Apart from specific companies, such as the state-owned shipping lines Mahart, which has suffered from the closure of the Danube to navigation, the damage to the economy so far has been "minimal", said Mr Varga – although that could change if the conflict drags on and hits the tourist industry.

The lack of direction that pervades the bourse is more down to problems with domestic macro-economic fundamentals. Inflation for March was up at 9.3 per cent and the latest figures for the budget and current account deficits are swelling.

Daily turnover, typically around $55m, is one-third down on a year ago, and much of this is intra-day, speculative investment. The general consensus is that the government fiscal deficit target, revised up to almost 4 per cent of gross domestic product, is too optimistic and GDP growth will miss the original 5 per cent target by a percentage point or so.

The government insists no emergency measures are needed. And HSBC Securities in its latest report on Hungary, says there do seem to be "legitimate explanations for each individual piece of [negative] data", and the market's bearish reaction is "excessive".

In the medium term, however, HSBC warns that either the data needs to improve or a fiscal adjustment is required. The rub, as the report states, is that promises of fiscal contraction lack credibility from a government elected on a pro-growth policy.

New listings will help liquidity. *The maximum subscription price for the Synergon issue values the systems integrator at about $132m, with almost half that in free float.* And the state is preparing the sale of a further 5.7 per cent tranche currently valued at $332m in Matav, the telecoms leader.

Good news could also take the form of a better outlook for corporate earnings, which are expected to be patchy this year but could be showing more consistent growth in 2000. But until then general economic performance is likely to determine the market mood.

Kester Eddy

Comgás auction gives balance to São Paulo

SAO PAULO rallied modestly in early trading, partly regaining Tuesday's decline of nearly 2 per cent.

Brokers said the outcome of the auction for natural gas distributor Comgás had helped restore some balance to confidence. The successful bidders, Royal Dutch Shell and BG, paid $992m *representing a healthy premium for the shares.*

By the midsession count the benchmark Bovespa index was up 100 at 11,317.

MEXICO CITY edged ahead in spite of nervousness about interest rates that had been sparked by an upward spike for the local money market where rates on 28-day Cetes hardened.

The IPC index was trading at 5,308.32 at midsession, an improvement of 12.01.

CARACAS responded to a softer day for international oil prices by moving gently lower in morning trading. By midsession the IBC index was off 10.33 at 4,157.63.

Jo'burg firms on new issues

SOUTH AFRICA

Shares in Johannesburg stayed firm with broad sentiment boosted by election news and a number of exciting new issue performances. The all share index added 70.7 to 6,672.8.

Financial group Cadiz Holdings rose on its first day, closing at R5.90, against a flotation price of R1.70.

News that elections had been set for June 2 also cheered investors.

However, gold stocks were dull, slipping 14.1 to 2,927.

Singapore boosted by financials

ASIA PACIFIC

A firm local dollar plus active buying of financials sent SINGAPORE up to its highest level since October 1997. The Straits Times index ended 22.75 or 1.4 per cent higher at 1,702.73.

The property sector surged 4.5 per cent on talk of an interest rate cut and optimism ahead of plans for financial reform the government is expected to unveil before mid-year.

Among leading property stocks, City Developments rose 40 cents to S$9.95 and Singapore Land added 30 cents at S$4.30.

TOKYO began cautiously but recovered towards the close as investors returned to buy on dips, after the benchmark Nikkei 225 index fell below 16,500 for the first time in four days, writes Michiyo Nakamoto.

The blue-chip index closed up just 49.52 at 16,764.68 after moving between a high of 16,799.17 and a low of 16,436.19.

The Topix index of all listed shares gained 11.61 to 1,343.35, while the Nikkei 300 rose 2.69 to 268.61.

Following a firm rise on Tuesday, the market was caught between concerns about technology stocks in the wake of the negative news from Compaq Computer last Friday and hopes that fresh money would enter the market as allocations by pension funds start in the new financial year.

The stronger yen also hit technology exporters. Sony fell Y380 to Y11,700.

Volume rose to 719.33m compared with 692.02m on Tuesday. In spite of the overall gain, declining issues outnumbered advancers 638 to 558 with 122 issues unchanged.

Defensive stocks attracted attention amid the uncertainties in the foreign exchange market.

Pharmaceuticals, for example, were favoured since their main market is domestic. Takeda Chemical Industries hit a record Y5,570 although it closed somewhat lower at Y5,550, up Y270 on the day. Fujisawa Pharmaceutical gained Y95 to Y2,005.

Restructuring continued to be a favourite theme. KDD rose Y500 to Y6,350 after a report that it planned to trim its workforce by 35 per cent. KDD denied it had made a decision on the exact extent of staff cuts.

DDI surged Y10,000 to Y615,000 on news that it was talking to IDO, a mobile carrier, about integrating their cellular phone operations. These talks are widely seen to be a precursor for a fully *fledged merger.*

TAIPEI dismissed a late *bout of profit-taking and hit* a four-month high, powered *by mergers and acquisitions* activity in the banking sector. The weighted index advanced 60.80 or 0.8 per cent to 7,396.65, also lifted by anticipation of a meeting today between foreign pension fund managers on investment opportunities in Taiwan.

The financial sub-index rose 2.6 per cent on hopes Cathay United's purchase of a stake in troubled Taichung Business Bank could unleash a wave of restructuring in the sector.

KUALA LUMPUR closed 1.1 per cent lower on settlement day as investors saw street protests as a pretext to book profits.

The composite index ended a four-day rally, falling 6.52 to 578.11 after demonstrators reacted angrily to a court ruling jailing former finance minister Anwar Ibrahim.

HONG KONG succumbed to profit-taking as the Hang Seng index ran into resistance just below 12,000. The blue-chip index closed 85.56 lower at 11,834.13 after hitting a 17-month high of 11,963.91 in the first hour of *trade.*

HSBC dipped HK$2 to HK$268, *Hutchison Whampoa* fell HK$1 to HK$85.75 and controlling shareholder Cheung Kong shed 75 cents to HK$64.70.

JAKARTA was higher as foreign demand for second-liners overcame profit-taking in some of the big-cap stocks. The composite index finished 3.03 higher at 435.56.

Profit-taking sent heavyweight Telcom down Rp75 to Rp3,275.

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